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ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

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DATE:

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ANGUS. STONEHOUSE & CO. LTD.
TORONTO. ONTARIO

I N D E X

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TORONTO, ONTARIO

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3 ROYAL COMMISSION ON TRANSPORTATION
4
5

6 Proceedings of hearings held
7 in the Court Room, Board of
8 Transport Commissioners
9 Offices, Ottawa, Ontario, on
10 the 29th day of September,
11 1960
12

13 COMMISSION

14 Mr. M.A. MacPherson, Q.C.	Chairman
15 Mr. H. Anscomb	Member
16 Mr. A.H. Balch	Member
17 Mr. R. Gobeil	Member
18 Mr. H.A. Mann	Member
19 Mr. A. Platt	Member

20 COMMISSION COUNSEL

21 Mr. A.G. Cooper, Q.C.

22 Mr. G.S. Cumming

23 Mr. F.W. Anderson Secretary

24 Major N. Lafrance Assistant Secretary
25
26
27
28
29
30



Ottawa, Ontario
Thursday,
September 29th, 1960.

---On commencing at 10:00 a.m.

THE CHAIRMAN: Order, please. Very well,
Mr. Sinclair.

CROSS-EXAMINATION BY MR. SINCLAIR, resumed.

Q. Yesterday before adjournment, Mr. Stechishin, we were discussing the proposition and suggestion of the province of Manitoba that intermediate points would be given the advantage of carrier competition on traffic moving from those points, even though carrier competition did not exist. It was your position, as I understand it, that that would be justified on two grounds; one, that there would be introduced a new principle of recognizing internal market competition and secondly, that this would be for the benefit of the railways in enabling them to maximize their net revenue. Is that a correct summary of it?

MR. STECHISHIN: If by recognizing internal competition you mean retaining the relative geographical advantages of intermediate shippers, yes.

Q. Why do you restrict it to intermediate shippers? Let me give you an example. Say, for example, that traffic is moving westbound at a competitive rate Toronto to Winnipeg, to meet truck competition, and the market is Winnipeg and traffic is also moving eastbound a shorter distance, the same



1
2 type of traffic into the Winnipeg market, which is
3 the common market, why would you not extend the same
4 principle that you have suggested for intermediate
5 points?

6 MR. STECHISHIN: Mr. Sinclair, our first
7 recommendation on page 54 says:

8 "That the railways should not be
9 permitted to select the centres which will
10 be allowed to compete in a given market."
11 That does not necessarily restrict it to intermediate
12 points.

13 Q. But your brief did not cover other
14 than intermediate points?

15 MR. STECHISHIN: That is correct.

16 Q. So what you are saying now on the
17 proposition I put to you your principle would be that
18 just as in the intermediate points that eastbound
19 shipment into Winnipeg would reflect the distance
20 factor involved in its proportion of the total
21 distance on the competitive rates in Toronto; correct?

22 MR. STECHISHIN: I do not think you should
23 be prejudiced by the lower rate from Montreal or Toronto
24 that you just mentioned.

25 Q. This would then be an extension of
26 your principle to straight market competition irrespective
27 of intermediate points; internal market competition?

28 MR. STECHISHIN: It would appear to be
29 that, from that first recommendation that I just read.

30 Q. Now, Mr. Stechishin, you say that this



1
2 is based on "The railway should not be permitted to
3 select the centres which would be allowed to compete
4 in a given market." That is the basis?

5 MR. STECHISHIN: That is correct.

6 Q. I suggest to you the railways are
7 not selecting the centres which would be allowed to
8 compete in a given market; it is the competition
9 that is forcing the rate in one place and that
10 competition is not effective in the other place; is
11 that not so?

12 MR. STECHISHIN: I do not think that
13 market competition is between two points, Mr. Sinclair.
14 It is a situation created at a particular point and
15 the railways then reduce their rates to get that
16 traffic on the rail to that point. That is the
17 paramount point to be considered here.

18 Q. But the reason for the change in the
19 normal basis to a competitive basis on the examples
20 I have been giving you are based on carrier
21 competition on one movement that is not existent
22 on the other movement, so in both circumstances how
23 are the railways selecting?

24 MR. STECHISHIN: Let me give another
25 illustration, Mr. Sinclair. If you have market
26 competition at Vancouver, and a Calgary man and an
27 Edmonton man had been competing in the Vancouver
28 market and you decided to reduce the rate from
29 Calgary to Vancouver, but not to reduce it from
30 Edmonton to Vancouver, to get the traffic back on



1 rails, you would be selecting the point which would
2 be permitted to compete in the Vancouver market.

3 Q. And that, under the existing
4 situation, under the law and the Railway Act in
5 Canada would not be permitted?

6 MR. STECHISHIN: It certainly would be.
7 At least, as I interpret it.

8 Q. Without carrier competition between
9 Calgary ---

10 MR. STECHISHIN: It is market competition
11 at Vancouver.

12 Q. Internal market competition?

13 MR. STECHISHIN: I don't know what you
14 mean by internal market competition. You talk
15 about equality in your definition. I didn't say
16 that.

17 Q. I am amazed that after I have been
18 discussing this with you for half an hour, and with
19 your being in the traffic world for a few years,
20 that you do not know the difference between internal
21 and external market competition. Let me explain
22 it to you, and I will start again.

23 Internal market competition is what you
24 have said in your brief is not recognized by the
25 railways. Maybe you can help me. At the top
26 of one page you say, "The railways do not recognize
27 this..."

28 I'm sorry, Mr. Chairman, I am amazed that
29 the witness does not understand what I have been
30



1
2 putting to him. I thought it was extremely clear.

3 COMMISSIONER MANN: At the bottom of the
4 page -- it is at the bottom of a page; that passage
5 you are looking for.

6 MR. SINCLAIR: It is on the bottom of a
7 page and extends over to the top of another. That
8 is what I had in my mind, Mr. Commissioner Mann, but
9 I cannot find it.

10 Q. In any event, I won't waste time on
11 it, Mr. Stechishin. I will continue here. The
12 railways meet off-shore competition at a Canadian
13 point. An outstanding example is in the movement
14 of bottles from Redcliff, Alberta to meet competition
15 on bottles from California. And that is justified
16 on the basis that the foreign supplier moving his
17 goods into a seaport by water or in any other way
18 is providing competition to the Canadian producer,
19 and the railways have and are allowed to recognize
20 that as competition which may be the result of a
21 competitive rate or an agreed charge. You
22 understand that?

23 MR. STECHISHIN: I am aware that is being
24 done.

25 Q. All right. Internal competition --
26 let me give you an outstanding example. Let us
27 take two salt mills; one at Lindberg, Alberta, and
28 one at Minnedosa, Manitoba both manufacturing table
29 salt. The railways, one serving the Lindberg
30 plant, Canadian National; and Canadian Pacific railway



1
2 serving the Minnedosa plant, are not allowed to fix
3 rates at a competitive basis to enable the traffic
4 from the Canadian Pacific point, Minnedosa, to
5 enter a market in competition with the salt
6 manufactured in Lindberg.

7 It is at page 16, paragraph 45.

8 "The railways have stated that
9 market competition is not recognized
10 within Canada."

11 Thank you very much. Now, that is
12 exactly the point that you are going to change?

13 MR. STECHISHIN: Well, you mentioned in
14 the course of the rather long question that the
15 railways are not allowed to meet that competition.

16 Q. That is right.

17 MR. STECHISHIN: I am not aware of that
18 fact.

19 Q. You didn't know that?

20 MR. STECHISHIN: That they are not allowed
21 to ----

22 Q. Yes?

23 MR. STECHISHIN: I did not.

24 Q. You have never read these cases
25 involving internal market competition?

26 MR. STECHISHIN: I do not know of a
27 judgment of the Board that says that the railways
28 cannot meet competition.

29 Q. Then, Mr. Chairman, I will have to --
30 when I have a traffic witness on the stand, to make



1 that inevitable ---

2
3 MR. MAURO: Please let the witness finish
4 his answer.

5 MR. STECHISHIN: I certainly know that
6 when the railways publish their tariffs, and that
7 includes class, commodity, and the rest of it, they
8 will equalize their mileage with that of another
9 railway between two points. Certainly that is
10 an indication to me of meeting competition.

11 MR. SINCLAIR: Really, Mr. Stechishin.
12 I won't argue with him, Mr. Chairman. I will go on.

13 Q. What I am trying to ask you about is
14 this. Now, we are agreed that your principle would
15 extend not only to intermediate points, but to contra
16 points. I want to ask you how the net revenue
17 position of the railways would be affected on this
18 movement: the movement under the competitive rates
19 from Toronto to Winnipeg. Under your plan, the
20 movement of the goods from Medicine Hat to Winnipeg
21 would have to reflect the relationship of the
22 Medicine Hat - Winnipeg distance to the competitive
23 rate mileage factor, Toronto to Winnipeg.

24 As you know, the predominant movement of
25 boxcars is eastbound out of the prairies and empties
26 move from Toronto to Winnipeg and then are distributed
27 throughout western Canada.

28 Now, are you suggesting that the revenue
29 position of the railways would be enhanced if they
30 were forced under your proposal not to give effect to



1
2 the competitive factors that resulted in their rates
3 Toronto to Winnipeg, but must extend that proportionately
4 where no competition exists Medicine Hat to Winnipeg.
5 How are the revenues going to be improved?

6 MR. STECHISHIN: Mr. Sinclair, I do not
7 have the detail with me, but as I recall making a
8 study on the Waybill Analysis the predominant empty
9 movement was between Alberta and British Columbia
10 and was counter to the predominant movement in the
11 Toronto to Winnipeg traffic. But I would have to
12 check that.

13 Q. You would have to check that?

14 MR. STECHISHIN: Yes, sir.

15 Q. Let me take you to a place where I
16 am sure we would have no difficulty. Let us take
17 Swift Current to Winnipeg. I have now given you
18 approximately the break point on the grain east and
19 west, Mr. Stechishin. Now, what is your answer?

20 MR. STECHISHIN: Now, I have lost the
21 question.

22 Q. I am asking you how the revenues of
23 the railways would be enhanced by reflecting fictitious
24 competition on the movement from Swift Current to
25 Winnipeg?

26 MR. STECHISHIN: I do not think the
27 railways' revenues are ever enhanced by reflecting
28 fictitious competition, Mr. Sinclair. I am speaking
29 of real competition. I am assuming that the
30 competition does exist.



1
2 COMMISSIONER MANN: Or that it might be
3 potential?

4 MR. STECHISHIN: Well, that would be a
5 form of competition. I think potential competition
6 is real.

7 MR. SINCLAIR Q: Mr. Stechishin, the
8 examples that you gave in Exhibit 153-1 -- that is
9 Appendix 2 -- these are the only examples I have, but
10 I am sure you picked them out very, very carefully,
11 and I think ---

12 MR. MAURO: I wonder, Mr. Sinclair, if
13 you could explain that last comment. It isn't clear.

14 MR. SINCLAIR: Well, these are the goods
15 that he would think would be of advantage to the
16 railways' net revenue, if his principle was adopted.

17 MR. MAURO: Perhaps Mr. Stechishin
18 could explain just exactly how they were picked out --
19 if there was any plan there.

20 MR. SINCLAIR:Q: These would enhance the
21 railways' revenues if your plan was adopted in your
22 submission, Mr. Stechishin?

23 MR. STECHISHIN: Well, I think I will
24 have to ask the railways why they reduced that rate
25 on paper we referred to yesterday from \$7.44 to
26 \$1.85, unless they felt it would enhance their revenue
27 position.

28 MR. SINCLAIR: It is not my purpose here
29 to answer questions. It is my purpose to assist
30 the Commission by asking questions.



1
2 MR. MAURO: Mr. Stechishin is also trying
3 to assist the Commission.

4 MR. SINCLAIR: Not by asking counsel
5 questions.

6 MR. MAURO: I think you can sometimes
7 answer questions by asking them.

8 MR. SINCLAIR Q: I will tell you, Mr.
9 Stechishin, just so you won't be at all disturbed. It
10 was a competitive situation that had existed and
11 had nothing to do with market competition at Vancouver.

12 MR. STECHISHIN: Well, I am rather amazed
13 that a Winnipeg man could compete at the rate of \$7.44
14 against an eastern man at \$3.33 in the Vancouver market.

15 Q. I said it was a competitive situation
16 that did exist.

17 MR. STECHISHIN: That you chose not to
18 reflect in the rate structure until March of this year.

19 Q. That may have been when the railways
20 felt that they had established the need to enhance
21 their revenues by the rate adjustment that was
22 involved, but I want to know how you think these
23 appendix 2 movements would enhance the railways'
24 revenues?

25 MR. STECHISHIN: Simply by increasing the
26 net revenue of the railway in each shipment from
27 Winnipeg, as opposed to the net revenue they are
28 receiving at the present time from a shipment from
29 Toronto or Montreal, as the case may be.

30 Q. Let us take the first page as an



1 example. There are sixteen products involved;
2 correct? I have counted them.

3 MR. STECHISHIN: All right, I accept your
4 figure.

5 Q. I suggest to you that only two of
6 those sixteen are manufactured in Winnipeg.

7 MR. STECHISHIN: Oh, I suggest that you
8 are wrong, Mr. Sinclair.

9 Q. All right. The two I have in mind
10 are margarine and cheese. You tell me which other
11 ones on page 1 are manufactured in Winnipeg.

12 MR. STECHISHIN: Cement pipe, paper
13 articles, boards and sheets.

14 Q. Just a minute. I am on page 1.

15 MR. STECHISHIN: Yes. I'm sorry, I am
16 on page 2.

17 Q. Let's stick to page 1. I have 16
18 on page 1.

19 MR. STECHISHIN: Rubber goods; rubber
20 clothing.

21 Q. Rubber clothing is manufactured in
22 Winnipeg?

23 MR. STECHISHIN: Yes, sir.

24 Q. By whom?

25 MR. STECHISHIN: I don't know the name of
26 the firm now, but I did some work for them not too
27 long ago.

28 Q. I am instructed there are no rubber
29 goods or rubber clothing manufactured in Winnipeg that
30



1 would be affected by the rates that you have ---

2
3 MR. MAURO: It is going to be "affected by
4 the rates". The question was rubber clothing
5 manufactured in Winnipeg, and my witness says they
6 are. Perhaps Mr. Sinclair will lead in rebuttal,
7 the witness is going to prove they are not.

8 MR. SINCLAIR: Q: You say they are?

9 MR. STECHISHIN: The trade director of
10 the province of Manitoba shows them as being
11 manufactured in Winnipeg.

12 Q. Edible oil manufactured in Winnipeg?

13 MR. STECHISHIN: Not in Winnipeg but in
14 Manitoba.

15 Q. But, of course, why put Winnipeg
16 down here?

17 MR. STECHISHIN: Ken Powell
18 manufactures them, I believe.

19 Q. Edible oils manufactured in Winnipeg?

20 MR. STECHISHIN: To the best of my
21 knowledge, yes.

22 Q. Lubricating oils?

23 MR. STECHISHIN: I am not sure whether
24 there are two oil refineries there or not. I am
25 sure there is one of them.

26 Q. Hardwood lumber?

27 MR. STECHISHIN: Hardwood lumber is not
28 a manufactured article.

29 Q. Corn oil?

30 MR. STECHISHIN: Corn oil, I am not



1 positive on.

2 Q. Caustic soda?

3 MR. STECHISHIN: I think Mr. Trachtenberg
4 mentioned the other day there was a prospect of opening
5 up a caustic soda plant in Manitoba very soon.

6 Q. I am talking of Winnipeg, not the
7 rest of Manitoba.

8 MR. STECHISHIN: Mr. Sinclair, we are
9 talking here about a principle. It does not matter
10 whether it would Winnipeg, Portage La Prairie, or
11 anywhere else in western Canada. I use this as
12 an illustration of principle.

13 Q. Irrespective of whether goods move
14 or not, you want to have the railways directed to
15 publish rates notwithstanding the fact that they may
16 not move from Winnipeg but may move from somewhere
17 else in western Canada?

18 MR. STECHISHIN: I am asking that a
19 certain principle be accepted, and that these rates
20 be available to the shipper. I am not asking them
21 to publish numerous rates, but I want a shipper to
22 have a guarantee -- a shipper who is thinking of
23 opening up there -- to have a guarantee that that
24 rate will be available to him when he opens up
25 business.

26 Q. Of course, the situation in the
27 freight rate structure of Canada is they have not
28 tried to restrict the railways except in so far as
29 the Railway Act restricts them, and what you are
30



1
2 suggesting is that they put in these very stringent
3 rules as to the recognition of fictitious competition,
4 internal market competition and matters of that kind.
5 Would you agree with that?

6 MR. STECHISHIN: I am very unhappy, Mr.
7 Sinclair, that it should be necessary to make these
8 rules. I feel the railways would benefit by doing
9 it voluntarily.

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2 Q. You are going to protect them against
3 themselves?

4 MR. STECHISHIN: Sometimes they need it.

5 Q. This is your view?

6 MR. STECHISHIN: Yes, sir.

7 Q. Now, Mr. Stechishin, we raised this
8 question about the effect of your proposal and I said
9 I would come back to it, and you and your counsel were
10 good enough to give me your calculations.

11 I think the best way for me to do this, Mr.
12 Chairman, would be to refer to Volume 91, page 15616:

13 "We have arrived at the conclusion that
14 an increase of 10 per cent plus 3.5
15 cents per 100 pounds would give to the
16 carriers roughly the same revenue as the
17 20 per cent increase would, and this is
18 represented on the chart here by ---

19 Mr. Sinclair: You said 'calculation'.

20 Are you going to file that calculation?"

21 And through the good offices of Mr. Mauro and Mr.
22 Stechishin I was handed this, and I think it is fairly
23 short. I have had it typed out and I think it should
24 be taken into the record -- subject to check, of course;
25 I haven't checked it with the girl who typed it.



ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Stechishin, cr-ex
(Sinclair)

16308

Summary for Canada -- 1958 W/B Analysis

	<u>Revenue</u>	<u>Tons</u>	
Class Rates			
A	422,744	15,813.8	
B	<u>143,080</u>	<u>2,847.4</u>	
	\$ 565,824		18,661.2
Com.Non-Comp.			
B	1,987,666	348,488.6	
D	<u>59,413</u>	<u>2,509.5</u>	
	<u>2,047,079</u>		<u>350,998.1</u>
Total Non-Comp.	\$2,612,903		369,659.3
Competitive			
B	1,229,329	201,350.4	
D	<u>50,669</u>	<u>1,318.7</u>	
	1,279,998		202,669.1
Agreed Charges			
B	737,206	85,713.1	
D	<u>24,428</u>	<u>525.7</u>	
	761,634		86,238.8
Statutory			
B	557,363	131,808.7	
D	<u>222</u>	<u>48.2</u>	
	557,585		131,856.9
Official			
A	12,900	700.2	
D	1,546	58.4	
Multiple C	<u>98,537</u>	<u>6,950.7</u>	
	<u>112,983</u>		<u>7,709.3</u>
Total for Canada	\$5,325,103		798,133.4
Total Revenue subject to increase is		\$4,654,535	
Amount of increase at 20%		\$ 930,907	
$\frac{1}{2}$ of increase at 10% is		\$ 465,453.50	
Total tons		658,567.2	
Increase per ton	$\frac{465,453.50}{658,567.2}$	=	70¢ per ton



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Stechishin, cr-ex
(Sinclair)

16309

				Yield	
				at	at 10%
				20%	70¢ ton
<u>Non-Competitive Rates</u>					
Rev. @ 20%	2,612,903	<u>522,581</u>	80%	418,065	
" @ 10%	"	261,290			
" @ 70%	369,659.3	<u>258,762</u>			
		520,052	80%		416,042
<u>Competitive Rates</u>					
Rev. @ 20%	1,279,998	256,000	50%	128,000	
" @ 10%	"	128,000			
" @ 70¢	202,669.1	<u>141,868</u>			
		269,868	50%		134,934
<u>Agreed Charges</u>					
Rev. @ 20%	761,634	152,327	5%	7,616	
" @ 10%	"	76,163			
" @ 70¢	86,238.8	<u>60,367</u>			
		136,530	5%		6,826
				<u>533,781</u>	<u>557,802</u>
Total revenue to be increased				\$ 4,654,535	
Yield at 20%				553,781	
Percentage yield				11.9%	



1
2 MR. SINCLAIR: Q. Now, this is based on
3 the Board's Waybill Analysis for 1958. Correct?

4 MR. STECHISHIN: That is correct, sir.

5 Q. And this can result in an averaging
6 of C.N. and C.P. and all railways in Canada's movements
7 in all classifications, and in this respect it differs
8 from the rates fixed where Canadian Pacific was used
9 as the yardstick?

10 MR. STECHISHIN: Yes.

11 Q. Your assumption, therefore, is that
12 the relationship between the various classes,
13 agreed charges, competitive rates and non-competitive
14 commodity rates are the same on all railways in Canada?

15 MR. STECHISHIN: No, not an assumption. I
16 have to do the best work I can with the tools I have.
17 We asked for a burden study, you will recall, last
18 fall, and we were denied that.

19 Q. I don't know how you reach out like
20 that, because you had the data filed in the 17% general
21 increase case.

22 MR. STECHISHIN: Not by tons.

23 Q. You never asked the railways for ton
24 groups, did you?

25 MR. STECHISHIN: Personally I didn't, no.

26 Q. The next assumption you made in this
27 calculation was that the ton increase would apply
28 without modification whatsoever?

29 MR. STECHISHIN: I don't understand that
30 question.



1
2 Q. Well, in this calculation where you
3 said it comes out approximately the same you made no
4 adjustment for the modification on short haul low-
5 rated traffic which you said was required to be taken
6 into account?

7 MR. STECHISHIN: That modification was
8 made subsequent to this calculation. I don't think
9 it would affect the traffic that much, Mr. Sinclair,
10 to be quite frank with you. In fact, I am quite
11 convinced it wouldn't.

12 Q. You also made the assumption that on
13 normal rated traffic the attrition would be 20 per
14 cent?

15 MR. STECHISHIN: That should be yield factor,
16 not the attrition.

17 Q. And those railway figures were based on
18 a 19 per cent increase?

19 MR. STECHISHIN: That is correct.

20 Q. And you adopted Mr. Edsforth's attrition
21 and erosion factor, notwithstanding that you have
22 changed the base of the application of increase and
23 placed a heavier impact on the short haul traffic and
24 relieved the long haul traffic and relieved the light
25 loaded, high rated traffic?

26 MR. STECHISHIN: What is the point in that
27 statement?

28 Q. I have asked you if you have applied
29 the same attrition factors as Mr. Edsforth did not-
30 withstanding the changes which resulted from your



1
2 proposal. Is that right?

3 MR. STECHISHIN: The studies I have made
4 indicate that the existence of competition is no
5 heavier on the short haul traffic than it is on the
6 long haul traffic.

7 Q. I have asked if the question I put to
8 you was right: notwithstanding the fact that you had
9 put a heavier increase on the low rated, short haul
10 traffic and had relieved long haul, and notwithstanding
11 the fact that you had relieved light loaded, high rated
12 traffic and still did not make any provision for the
13 attrition and erosion factor?

14 MR. STECHISHIN: Substantially, yes. My decision w
15 based on a study which indicated that the short haul
16 traffic was no more susceptible to competition than
17 the long haul traffic.

18 Q. If Mr. Edsforth or Mr. Roberts said
19 that their experience in handling competitive factors
20 in Canada, not just in Winnipeg, was to the contrary,
21 what would you say then?

22 MR. STECHISHIN: I would say they are
23 mistaken, because I ^{am} using the Waybill Analysis and
24 that shows that is true.

25 Q. You are saying, notwithstanding the
26 fact that this is the business they are in and respon-
27 sible for, you know more about it than they do?

28 MR. STECHISHIN: I am not saying that.
29 I am saying that the facts show that.

30 Q. You are saying the Waybill Analysis



1
2 can be used to show competition. Is that your state-
3 ment?

4 MR. STECHISHIN: I think so, yes.

5 Q. Now, Mr. Stechishin, during your
6 examination by my friend you said that there were
7 routes that were available; the traffic did not move
8 over them ratewise because the points of connection
9 were not officially designated as interchange points.
10 Do you remember that?

11 MR. MAURO: Perhaps you could refer him
12 to the transcript.

13 MR. SINCLAIR: I haven't got it. It is my
14 notes.

15 MR. STECHISHIN: I think I would like to see
16 the exact answer I gave. The way you said it I think---

17 Q. You say it any way you want to say it.

18 MR. STECHISHIN: You better repeat it.

19 Q. I am asking you, is it your position
20 that there are points in Canada where the railways
21 are connected but that rates and traffic are not fixed
22 on the routes thus established because the points of
23 connection are not designated as official interchange
24 points.

25 MR. STECHISHIN: There are no routes thus
26 established.

27 Q. On the routes that are available or
28 would be available?

29 MR. STECHISHIN: If an interchange were
30 built?



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Q. Yes.

MR. STECHISHIN: Yes, that is my statement.

Q. Now, Mr. Stechishin, it is a very simple question I have for you. I want you to take a look at Section 341 and Section 342 of the Railway Act and tell me why, on the matter of joint tariffs over any reasonable route, this doesn't fully protect and govern the situation?

MR. STECHISHIN: Mr. Sinclair, your question is predicated on the route being established. We ask this as a rate-making basis, not as an established route.

Q. I am suggesting to you that any reasonable route will be established if it isn't already established by the Board in accordance with the law I have given you.

MR. STECHISHIN: You are asking me to interpret the law. I am sorry.

Q. That is your answer?

MR. STECHISHIN: Yes.

Q. In the points you have mentioned in your submission, have any of these points asked for interchange points and been denied?

MR. STECHISHIN: Again you are becoming specific. We were talking here of a principle.

Q. I like to be specific. Have any of the points mentioned in your brief, Winkler, Geraldton and any of these points in southern Manitoba that you suggest had some disability, asked for interchange



1
2 points?

3 MR. STECHISHIN: Winkler and Geraldton
4 are not common points to both railways.

5 Q. I am asking you if any of the points
6 you mentioned in your brief of being under disability
7 and having circuitry because of non-establishment of
8 interchange points asked for interchange points that
9 would remove the circuitry ?

10 MR. STECHISHIN: I don't keep a file of
11 what each point does. I do know there have been
12 complaints on that score on many occasions.

13 Q. To the Board?

14 MR. STECHISHIN: I don't know. Certainly
15 there was from Alberta.

16 Q. I am asking you about the points you
17 mentioned.

18 MR. STECHISHIN: What points do I mention?

19 Q. You don't know of them making any
20 applications to the Board, the ones you refer to in
21 your brief as being under a disability because
22 of interchange points not being established?

23 THE CHAIRMAN: Take Carmen and Deloraine.

24 MR. STECHISHIN: I didn't refer to Carmen
25 and Deloraine.

26 MR. SINCLAIR: Q. Suppose a shipper in
27 Winkler wanted to send canned goods to a buyer in
28 Gardenton, and you went on with a number of other
29 ones in the same part of your brief. I am asking
30 you, have any of the municipalities or shippers involved



1
2 in those kinds of movements made an application to
3 the railways or to the Board?

4 MR. STECHISHIN: I certainly know that
5 Winkler has complained of the disadvantage of being
6 located exclusively on C.P.R. lines.

7 Q. Will you please listen to the question?
8 Have any points mentioned in your brief as suffering
9 a disability through circuitry made an application to
10 the railways or to the Board?

11 MR. STECHISHIN: Yes, Winkler has.

12 Q. When did it make it?

13 MR. STECHISHIN: To the railways.

14 Q. When?

15 MR. STECHISHIN: On several occasions.

16 I don't know the date.

17 Q. What was the answer?

18 MR. STECHISHIN: No.

19 Q. Do you know the reasons?

20 MR. STECHISHIN: No. I wasn't present.

21 Q. Who told you they made the application?

22 MR. STECHISHIN: People in Winkler.

23 Q. Do you mind saying whether it was a
24 shipper?

25 MR. STECHISHIN: It was a shipper.

26 Q. That is the only one point you know of?

27 MR. STECHISHIN: That is the only point I
28 mentioned. You said "points". What other points
29 did I mention?

30 Q. On what page are you dealing with those



1
2 interchanges?

3 MR. STECHISHIN: Around page 27, where I
4 mention Winkler, and that is the only point I mention
5 where I use that as an illustration.

6 Q. What about Geraldton to Armstrong,
7 Armstrong to Winkler? I am sorry, that is on equalized
8 scale. Well, then, if you have only mentioned one,
9 Mr. Stechishin, I am sorry.

10 MR. STECHISHIN: That is why I was confused
11 by your question, Mr. Sinclair.

12 Q. You must have other examples in mind.
13 What are they -- because you wouldn't make a big
14 submission like this just based on one shipper at
15 Winkler?

16 MR. STECHISHIN: I am not going to list
17 all the examples; but I know Altona, Manitoba,
18 complained on several occasions.

19 Q. Any others?

20 MR. STECHISHIN: I could find examples
21 where there has been an actual application made to the
22 railways.

23 Q. And followed up by one to the Board?

24 MR. STECHISHIN: I would have to go to my
25 files. I don't carry that information with me.

26 Q. I wonder if you would do that and file
27 it with the Commission?

28 MR. STECHISHIN: I don't think it is ---

29 MR. MAURO: No, and I will say we will not.
30 We are not discussing every little piece we have made.



1
2 We are discussing a principle, and if my friend opposes
3 it, he opposes the principle.

4 COMMISSIONER MANN: Despite the fact that
5 any difference may exist between you, I wonder if that
6 material is available in your files you could perhaps
7 let Mr. Cooper have a list of citations of cases which
8 were brought to the Board under 341 and 342 that took
9 place after the index to the CRCs that are available.
10 I think it only goes to Volume 48, and we are now at
11 Volume 79, or something like that. It would also
12 help us to have a look at the cases -- if that is
13 possible.

14 MR. SINCLAIR: That is not difficult. I
15 do that myself.

16 COMMISSIONER MANN: Thank you very much
17 indeed.

18 MR. STECHISHIN: Commissioner Mann, it
19 wouldn't give the whole story in any case, because there
20 are cases where it is turned down by the railways and
21 it doesn't go any further.

22 COMMISSIONER MANN: That may be, but I think
23 it will be interesting to the Board.

24 THE CHAIRMAN: Under existing law.

25 MR. SINCLAIR: Q. Now, Mr. Stechishin, on
26 lake and rail rates. Is it your submission that the
27 lake and rail rates to Manitoba result in an unjust and
28 unreasonable rate? Is that your position?

29 MR. STECHISHIN: If by "an unjust and un-
30 reasonable rate" you mean a higher rate that is justified



1
2 by the operating conditions, yes.

3 Q. Every point you make to this Commission
4 on this issue you presented and it was fully argued
5 with all parties present involved in this issue before
6 the Board of Transport in 1958. Correct?

7 MR. STECHISHIN: There are some factors
8 mentioned here which were not mentioned in that case,
9 Mr. Sinclair.

10 Q. You mean you have developed some new
11 evidence?

12 MR. STECHISHIN: No. I have specific refer-
13 ence to Tables 11 and 12 which were not a part of the
14 1958 case, if I recall.

15 Q. If facts and circumstances have changed
16 since the Board's decision or you have evolved new
17 evidence, you could reapply to the Board, couldn't
18 you?

19 MR. STECHISHIN: Mr. Sinclair, this section
20 on lake and rail rates -- our thoughts on it are
21 expressed probably in paragraph 148:

22 "These recommendations, we submit, will
23 make possible the realization of national
24 economic policy in regard to the movement
25 of goods by water on the Great Lakes
26 waterway system, particularly in its
27 effect on the economy of Manitoba and
28 that of the other prairie provinces."

29 This is not so much a question of ---

30 THE CHAIRMAN: You are not treating this as



1
2 an appeal from the Board of Transport?

3 MR. STECHISHIN: No, we are not, sir.

4 MR. SINCLAIR: Q. And you are not saying
5 that existing rates are unreasonable?

6 MR. STECHISHIN: I think I answered that
7 question.

8 Q. You said if they were higher than under
9 your proposal you are saying they would be?

10 MR. STECHISHIN: No, I didn't say that.

11 MR. MAURO: No, the witness said if they
12 were higher than operating costs.

13 MR. SINCLAIR: Q. I am asking you, Mr.
14 Stechishin, if you agree with this finding of the Board:

15 "The joint through differential rates
16 between eastern and western Canada
17 involved herein have not been shown to
18 unjustly discriminatory against the
19 City of Winnipeg and the Province of
20 Manitoba, nor unduly preferential in
21 favour of points west of the Province
22 of Manitoba."

23 Do you agree with that?

24 MR. STECHISHIN: Personally, I do not agree
25 with it.

26 Q. That was the finding of the Board.

27 MR. STECHISHIN: That is correct.

28 Q. Do you agree with this:

29 "The increases permitted in the
30 rates via the differential routes between



1
2 eastern and western Canada were properly
3 made under the powers of the Board, and,
4 except as stated in Finding No. 2, have
5 not resulted in unreasonableness in the
6 general level of the said differential
7 rate, nor in the general level of the
8 rates of the water lines between any
9 ports and places on the St. Lawrence
10 River and the Great Lakes."

11 Do you agree with that?

12 MR. FRAWLEY: Could I have the citation
13 to that case you are reading from? I didn't
14 catch it.

15 MR. SINCLAIR: I haven't the citation, I
16 am sorry.

17 MR. FRAWLEY: Is it the Winnipeg Chamber of
18 Commerce Case?

19 MR. SINCLAIR: Yes. I am quoting from
20 pages 39 and 40 of the Board's Order.

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2 MR. STECHISHIN: I have a copy here, which
3 is numbered consecutively in the J.O.R. & R., and I
4 don't have that page.

5 Q. Do you want me to read it again: "The
6 increases permitted in the rates via the differential
7 routes between eastern and western Canada were properly
8 made under the powers of the Board, and, except as
9 stated in finding No. 2, have not resulted in
10 unreasonableness in the general level of the said
11 differential rates, nor in the general level of the
12 rates of the water lines between any ports and places
13 on the St. Lawrence River and the Great Lakes." Do
14 you agree with that?

15 MR. STECHISHIN: That judgment of the
16 Board was based on paragraph at page 505 of Volume
17 48, and I might just read that.

18 Q. Are you going to interpret the
19 judgment now?

20 MR. STECHISHIN: No, it is in answer to
21 your question.

22 MR. MAURO: It is in answer to the question.

23 MR. SINCLAIR: Q: I see.

24 MR. STECHISHIN: "One of the duties of
25 the Board is stated in section 3 of the
26 Transport Act, as follows:

27 'It is the duty of the Board to
28 perform the functions vested in the Board
29 by this Act and by the Railway Act with
30 the object of coordinating and harmonizing



1 the operations of all carriers engaged
2 in transport by railways and ships and
3 the Board shall give to this Act and
4 to the Railway Act such fair interpretation
5 as will best attain the object aforesaid.'

6
7 Differential rates are a well-
8 recognized method of attaining such
9 objects and are, in fact, the best
10 practical means of maintaining harmony
11 between the all-rail and water-rail or
12 all-water routes. The rates produced
13 by such method, however, must be just
14 and reasonable in all respects."

15 Our recommendation says:

16 "That the through rate on a shipment
17 carried by more than one type of carrier
18 should reflect the relative rate
19 characteristics of each type of carrier
20 to the extent that each has participated
21 in that movement."

22 We are not talking here about harmonizing
23 rail and water rates. We are talking about
24 having each rate reflect the transportation
25 characteristics of the mode of carriage.

26 Q. If the Board felt it necessary to
27 carry out this duty as you have quoted it of
28 harmonizing these two media of transport, and if your
29 proposal were followed and this would result in
30 disharmony, is it the suggestion of Manitoba that part



1 of the Transport Act to which you refer be repealed?

2 MR. STECHISHIN: I don't know whether
3 that is necessary to achieve what we are looking
4 for, but I would say if it is, then, that would be
5 our position.

6 COMMISSIONER MANN: Mr. Stechishin, as
7 a matter of general principle, if you will excuse
8 me, Mr. Sinclair, in the United States until the
9 change in the Transport Act, in the policy over
10 there in 1958 the Interstate Commerce Commission was
11 to give due regard to the effect of its rate making
12 on other modes of carriage. That provision, as
13 I understand as a result of the Smathers committee
14 recommendations, has now been changed. The
15 ~~interpretation~~ as it might appear from this case
16 just cited would be along the lines of the Interstate
17 Commer Commission policy, or the American transportation
18 policy before 1958. What you are suggesting is
19 something along the present interpretation of
20 policy in the United States.

21 MR. STECHISHIN: That is correct, yes.
22 What we are objecting to, as we quote in our brief
23 from Mr. Currie where he said, "...about 1908 they
24 tacitly agreed that rates by all-water or by rail-and-
25 water should be a fixed differential below all-
26 rail rates." The Transport Act by stressing
27 "harmonizing" I think, perpetuated that tacit
28 agreement.

29 COMMISSIONER MANN: You don't think when
30



1
2 a regulatory agency has under its wings two or more
3 modes of carriage it must pay attention to the
4 effect of its rate making for one mode of carriage
5 on another mode of carriage under its jurisdiction?

6 MR. STECHISHIN: I don't think so, no.
7 I don't think they should provide an umbrella. As
8 we say in paragraph 137:

9 "Each increase in rail rates
10 merely raised the umbrella over water
11 rates created by the differential
12 method of rate making and the remaining
13 package freighters generally elected
14 to follow the rail rates upward rather
15 than compete pricewise for the traffic
16 offering."

17 COMMISSIONER MANN: Thank you.

18 MR. SINCLAIR Q: Mr. Stechishin, on
19 page 79 of your brief, paragraph 167, you made
20 reference to a statement of Premier Roblin in which
21 you said that freight shippers are being required to
22 pay for the large expenditures made by the railways
23 in recent years for plant modernization.

24 MR. STECHISHIN: Yes, I see that. I
25 didn't make that statement. Our counsel did.

26 MR. MAURO: I quoted the statement of
27 Premier Roblin.

28 MR. SINCLAIR Q: Well, let us look
29 at paragraph 168:

30 "The province of Manitoba feels



1
2 that it is most important that
3 expenditures totalling \$2,433,530,000
4 over a six year period require close
5 analysis since, as previously stated,
6 under the present 'requirements formula'
7 it is the freight shipper who must bear
8 the burden of these expenditures."

9 MR. STECHISHIN: That statement was also
10 put into the record by Mr. Mauro.

11 Q. I see. It is an argument rather
12 than a statement of fact?

13 MR. MAURO: No, it is a statement of fact.

14 MR. SINCLAIR Q: Are you prepared to
15 answer questions in regard to it, Mr. Stechishin?

16 MR. STECHISHIN: The statement says
17 Manitoba feels it is important these expenditures
18 require close analysis.

19 Q. Well, from your study of freight
20 rate matters would you think expenditures for
21 modernization of railway plant would be charged to
22 railway expenses?

23 MR. STECHISHIN: I am sorry; that is
24 out of my field now. I can't answer that question.

25 Q. Have you ever looked at the uniform
26 classification of accounts promulgated by the Board
27 on January 1st, 1956?

28 MR. STECHISHIN: Yes, I have a copy of
29 that.

30 Q. Have you studied it?



1
2 MR. STECHISHIN: That depends on your
3 interpretation of "study". I am not an accountant.

4 Q. You are not an accountant?

5 MR. STECHISHIN: No.

6 Q. Do you know the difference between
7 capital expenditures and expenditures that are
8 recognized as non-capital?

9 MR. STECHISHIN: In a general sense, yes.

10 Q. Are you suggesting that there is
11 anywhere in this classification of accounts where
12 capital expenditures are charged to railway expenses?

13 MR. STECHISHIN: I couldn't answer that
14 question.

15 Q. Mr. Stechishin, will you look at
16 page 81, and this also is made reference to in
17 your appendix 2 where you start using statistics
18 in relation to the various measures of employees, and
19 I think I can work from either one of them; maybe
20 I will have to take you to your appendix 2 in a
21 minute. Look at the heading "employees" on page
22 81.

23 MR. STECHISHIN: Yes.

24 Q. "General": you show an increase of
25 20.5 per cent in that classification.

26 MR. STECHISHIN: Yes, sir.

27 Q. Do you think that is significant?

28 MR. STECHISHIN: Significant in that it
29 varies from the trend in all other classifications
30 of employees.



1 Q. Do you think it is a mark of -- what?
2 Inefficiency, that this has gone up by 20 per cent?

3 MR. STECHISHIN: Our paragraph 171
4 immediately following -- and I might just read the
5 second last sentence:

6 "The substantial increase, (21 per
7 cent), in the number of employees in the
8 general category (executive, clerks and
9 stenographers) which is contrary to the
10 trend in all other categories would
11 appear to reflect the tendency experienced
12 by most industries in Canada during this
13 period."

14 Q. You are not quarrelling with that?

15 MR. STECHISHIN: I am not being critical
16 of it at all.

17 Q. But did you know that the whole
18 classification of employees was altered on January
19 1st, 1956 and that there was a marked change in the
20 classification of employees that come within
21 "general" -- did you know that?

22 MR. STECHISHIN: I certainly was not
23 aware of that from the DBS figures.

24 Q. Well, if you look at the DBS figures
25 you say you have been using ---

26 MR. STECHISHIN: They used classifications
27 1 to 78 up until 1956, and then another one was
28 added -- 79.

29 Q. Didn't they also change the component
30



1
2 of the classification? I suggest to you they did,
3 and I suggest to you also if you look at your exhibit
4 153-K you should have been on your guard when you
5 looked at the difference under General Classifications
6 1 to 12 and the marked change between 1955 and 1956
7 in a number of the items that are there set out?

8 MR. STECHISHIN: What page is that, sir?

9 Q. Page 3. Do you not see the very
10 marked changes that have taken place there?

11 MR. STECHISHIN: What years?

12 Q. Between 1955 and 1956, as compared
13 to the fluctuations in prior years or subsequent
14 years?

15 MR. STECHISHIN: I must have overlooked
16 that. It didn't come to my attention.

17 Q. Therefore, you would agree that
18 because of these classification changes and components
19 within the classification that you are not comparing
20 like with like?

21 MR. STECHISHIN: When I compare "general"
22 with the other classes of employees?

23 Q. Or when you compare prior to 1956
24 with subsequent to 1956.

25 MR. STECHISHIN: Well, I would have to
26 check that with the DBS. I don't have all those
27 statistics with me.

28 Q. Also on page 81, the increase of
29 61.6 per cent in investment is greater than the
30 increase in any other indices shown for the ten year



1
2 period, and I have talked to you about any disagreement
3 with the relationships you have made, but this is
4 a different point. I suggest to you that you cannot
5 compare a percentage change in investment with the
6 number of employees or physical things such as you
7 have done in your statistics because the investment,
8 in addition to reflecting change in physical things,
9 reflects changes in dollar values: do you agree
10 with that?

11 MR. STECHISHIN: I am aware it does
12 reflect the change in dollar value.

13 Q. Did you put in trended money costs
14 or attempt to do that to weight it?

15 MR. STECHISHIN: I wasn't trying to do
16 that, Mr. Sinclair.

17 Q. Look at page 82, Table 14: this
18 is for all railways in Canada?

19 ~~MR.~~ STECHISHIN: Yes, sir.

20 Q. Comparison 1949 to 1958?

21 MR. STECHISHIN: That is right.

22 Q. Look at item No. 6, "empty car
23 miles". The Quebec North Shore and Labrador was
24 not operating in 1949, was it?

25 MR. STECHISHIN: No, sir.

26 Q. Was it operating in 1958?

27 MR. STECHISHIN: Yes, sir.

28 Q. It has practically a 100 per cent
29 empty return movement -- correct?

30 MR. STECHISHIN: I would assume so, yes;



1 I don't know.

2
3 Q. Did you give effect to that in
4 your figures?

5 MR. STECHISHIN: All I have done here, as
6 I have mentioned on page 80, paragraph 170:

7 "170. One of the major difficulties,
8 particularly in Canada, is to determine
9 appropriate indices. We have used in this
10 context those generally adopted in
11 measuring the efficiency of Class I
12 railroads in the United States. Volume
13 II contains a number of tables which
14 show a year by year compilation for the
15 ten-year period 1949 - 1958 of the
16 indices we have selected. The
17 following is a summary of these tables.
18 For the purpose of this discussion we
19 have selected for comparison the years
20 1949 and 1958, the first and last years
21 of the ten-year period in question."

22 And that is all I have done. I am not
23 trying to interpret them. I am not trying to place
24 any significance on them. I am putting in some
25 figures because there is such a dearth of these
26 figures available in Canada today.

27 Q. Well, for whatever purpose you have
28 put them on, I want to draw to the Commission's
29 attention ^{to} what may result in somebody using them in
30 a way that is not proper. I am not saying you are.



1
2 I am saying "somebody" might.

3 MR. MAURO: Mr. Chairman, in Manitoba
4 coming forward with this submission, we felt that
5 the errors and mistakes in our submission -- which
6 we felt we had a duty to present to the Commission
7 in accordance with the terms of reference -- would
8 be corrected.

9 THE CHAIRMAN: I think the Commission
10 understands that.

11 MR. SINCLAIR: And I don't undertake to
12 correct them all. I just indicate some of them that
13 occur to me.

14 COMMISSIONER MANN: On that point I was
15 going to ask you a question later, but perhaps it
16 would be appropriate to do so at this point. This
17 also, I think, is dealt with in your Table 21 on page
18 87 where you show an increase 1958 over 1949 of
19 empty car miles per car of 9 per cent. Mr. Sinclair
20 has suggested to you that the 100 per cent empty
21 return movement of the Quebec North Shore and Labrador
22 is one of the factors. In your opinion would
23 another factor be the tendency of the railways to
24 acquire specialized equipment?

25 MR. STECHISHIN: I would say that would
26 certainly be a factor, yes. I am looking at the
27 Quebec North Shore to see what the total is: 102,000
28 cars originated out of a total 3,195,000; so, I think
29 the Quebec North Shore would have a minor impact on
30 the total. It would have an impact. I am not



1
2 not denying it has an impact, but I don't think it
3 is enough to make any significant change in the tables.

4 MR. SINCLAIR: Do you think the fact
5 there has been, for instance, the building of lines
6 on Canadian Pacific to Nephton and to Manitouwadge
7 that this would also have the same kind of
8 characteristics as the mining railroad of the Quebec
9 North Shore and Labrador--would have the same effect?

10 MR. STECHISHIN: Oh yes, certainly. Any
11 new movement which is a one way movement would
12 certainly increase the percentage.

13 Q. Looking at Table 14 you show an
14 item "switching locomotive miles (freight)". I
15 suggest to you you have got "freight" for "passenger"
16 by inadvertence.

17 MR. STECHISHIN: May I check that please?

18 Q. Yes.

19 THE CHAIRMAN: We will take a break now
20 and you can check it then.

21
22 ---Short recess.
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THE CHAIRMAN: Order, please.

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MR. SINCLAIR: Q. Did you check that
item No. 9 during the recess?

5

MR. STECHISHIN: Yes, I did, Mr. Sinclair,
and it appears to be a typographical error.

7

Q. What do you mean?

8

MR. STECHISHIN: The word "freight" should
not be in there.

10

Q. It is "freight and passenger"?

11

MR. STECHISHIN: It is actually listed as
yard switching. I presume it includes freight and
passenger. There is nothing to indicate it is ex-
clusively freight.

15

Q. The statistics indicate that when there
is a separation that they are separated by freight
and passenger; when it is not designated it covers
that also. Are you familiar with those statistics?

19

MR. STECHISHIN: The DBS statistics show
locomotive miles by freight, by passenger, by train
switching and by yard switching.

22

Q. Yes. And yard switching is not broken
down between passenger and freight?

24

MR. STECHISHIN: No, sir..

25

Q. Table 15. This is the heading
"Per Mile of Road."

27

MR. STECHISHIN: Yes, sir.

28

Q. I am suggesting that you changed your
base in there, and some of them are on mile of road
and some on mile of traffic. Would you agree with me?

30



1
2 Specifically, take Example 4. Item 4,
3 "Total employees"; 5, "Employees' revenues; way and
4 structures". I suggest to you that is mile of
5 traffic, not mile of road?

6 MR. STECHISHIN: I would have to recheck
7 my calculations.

8 Q. Would you do that?

9 MR. STECHISHIN: It was not intentional to
10 change that.

11 Q. I realize that.

12 MR. STECHISHIN: I didn't think that happen-
13 ed. I am surprised it did happen.

14 Q. If I am not correct, would you please
15 through your counsel let me know?

16 MR. STECHISHIN: I can recheck the calcula-
17 tions. That is on total employees?

18 Q. Well, on my calculations I think you
19 have changed on your first three your miles of road
20 and your last three, your miles of traffic?

21 MR. STECHISHIN: I would have to check that.

22 Q. That is miles of all traffic, when I
23 say miles of traffic.

24 MR. STECHISHIN: Yes, but did I do the same
25 thing in 49 and 58, incidentally?

26 Q. I can't tell you that; I haven't checked
27 that.

28 MR. STECHISHIN: I was just wondering whether
29 I was consistent between the first period and the last
30 period.



1
2 Q. I don't know. Have you not changed
3 the bases between Table 13 and Table 14; for instance,
4 locomotive miles revenue tons originated; revenue
5 ton miles. As far as I can figure this, Mr.
6 Stechishin, you have not got the same basis in Tables
7 13 and 14 as you have in Table 15. Would you check
8 that?

9 MR. STECHISHIN: I do not follow you, Mr.
10 Sinclair.

11 Q. Well, for instance, I think you will
12 find that in one place you are using locomotive miles,
13 49, and in one place, 4057, and I am working back-
14 wards. In another place, 4119 -- 58, 3235. And
15 in another place, 3087. And this would have an
16 effect of maybe changing your percentages as much
17 as five per cent?

18 MR. STECHISHIN: Where is it? I see
19 3087 and the 4119, but I do not see the other figures
20 referred to.

21 Q. That is what I am saying. They are
22 basic to the calculations you made in these other
23 tables; you have changed the numbers. Would you
24 check that? I may be wrong.

25 MR. MAURO: Are you clear, Mr. Stechishin,
26 on what Mr. Sinclair wants you to check?

27 MR. STECHISHIN: No, I am not. I do not
28 understand just exactly where I went wrong, if I did.

29 MR. SINCLAIR: Q. I am suggesting that
30 the figures, revenue ton miles -- you see, you show



1
2 1314379 in 55 for 49.

3 MR. STECHISHIN: Yes, I have that.

4 Q. I suggest when you work on these other
5 tables that the figures are based on revenue ton miles
6 of 1310862 for 49? I mean, this is just a little
7 exercise in arithmetic and you can see whether I am
8 right or wrong.

9 MR. STECHISHIN: I do not think you are
10 right, Mr. Sinclair.

11 Q. Well, if I am wrong, would you mind
12 checking it and telling your counsel?

13 MR. STECHISHIN: Well, where did I use this
14 1308 you referred to, for example?

15 Q. 1308? I never said 1308, did I?

16 MR. STECHISHIN: On the revenue ton miles.
17 I thought you said that.

18 Q. 1310862. You have used 1314374.

19 MR. STECHISHIN: Yes.

20 Q. And I am suggesting to you that in
21 Tables 13 and 14, being employees on various types of
22 calculations, revenue ton miles on 15 -- basic statis-
23 tics. Let me give you them: locomotive miles, you
24 use 4057.

25 MR. STECHISHIN: Where?

26 Q. In 15.

27 MR. STECHISHIN: It's 4119 right at the top
28 of the page, I'm sorry.

29 Q. I'm sorry. You use 4119.
30 I'm sorry.



1
2 MR. STECHISHIN: No, that was the result of
3 dividing the total locomotive miles by mile of road.
4 As a matter of fact, that is the figure taken directly
5 from DBS. It is not a calculation.

6 Q. I am suggesting that when you use the
7 same kind of data in 13 and 14 that you use 4057. Just
8 let me put them down for you, and you can check them.
9 Revenue tons originated, as I see it, you use 3330 ---

10 MR. STECHISHIN: Where are you looking now?

11 Q. 13 and 14. The basis is 3776 --
12 revenue ton miles, as I gave before, you use 1314379.
13 13 and 14. The basis you use, I suggest, is 1318062.

14 MR. STECHISHIN: I am sorry, sir, you
15 have lost me completely now.

16 MR. MAURO: Let Mr. Sinclair put them on
17 the record, Mr. Stechishin, and we can check them later

18 MR. SINCLAIR: Q. Now, Table 17.
19 In arriving at your figures in annual ton miles per car
20 and annual loads per car, have you taken into account
21 the difference of cars on line between two years that
22 are the basis of your comparison?

23 MR. STECHISHIN: No, I have not, sir.

24 Q. I suggest to you that if you check it
25 out you will find there is a marked difference in cars
26 on line between the two years, and therefore, unless
27 that adjustment is taken into account you have distorted
28 the comparison?

29 MR. STECHISHIN: I have not distorted the
30 comparison. I have worked with the material which was



1
2 available to me, and the railways at one time used to
3 publish the figures showing the cars on line and off
4 line, or the balance. Those figures are no longer
5 available to the public.

6 COMMISSIONER MANN: Are they not still
7 available through the railway association monthly?

8 MR. STECHISHIN: Officially, no.

9 MR. SINCLAIR: Q. I am suggesting to you,
10 unless you make such an adjustment the figures are
11 distorted; the comparisons, necessarily so. Would
12 you not agree with that?

13 MR. STECHISHIN: Well, then, I would change
14 that. That should say annual loads per car on Canadian
15 railways. That would cover it. Then it is not ---

16 Q. Would you repeat that, please?

17 MR. STECHISHIN: Annual loads per car in
18 service on Canadian railways. Then I would be taking
19 two DBS figures and showing the relationship between
20 one and the other.

21 Q. If the actual number of cars on line
22 change between the two years because of foreign cars
23 or own cars off, this would invalidate that kind of
24 comparison, I suggest?

25 MR. STECHISHIN: It would not invalidate
26 a comparison relating to annual number of cars in
27 service. We are not talking about cars on line; we
28 are talking about cars in service.

29 Q. You do not think you have to make
30 adjustment ?



1
2 MR. STECHISHIN: I think that would be
3 another calculation which would probably be more re-
4 vealing, but it certainly does not invalidate this
5 calculation.

6 Q. That is your position?

7 MR. STECHISHIN: Yes, sir. I would be
8 very happy to make that calculation if I had the infor-
9 mation.

10 Q. With regard to tractive power per
11 locomotive which you deal with in paragraph 177 of your
12 submission ---

13 MR. STECHISHIN: Yes, sir.

14 Q. In 1949 the predominant power was steam
15 power; in fact, I think ---

16 MR. STECHISHIN: Predominant?

17 Q. Yes, in fact I think ---

18 MR. STECHISHIN: Yes, predominant.

19 Q. I think statistics will show there is
20 no road locomotives on Canadian Pacific of any account --
21 maybe four or five in that year?

22 MR. STECHISHIN: I don't know about the
23 C.P.R., Mr. Sinclair. I am looking at DBS figures,
24 and of the total of 4,600 locomotives, 4300 were coal-
25 burning.

26 Q. Out of 4600, 300 diesel units?

27 MR. STECHISHIN: Plus a few electrics.

28 THE CHAIRMAN: They were mostly in yards?

29 MR. STECHISHIN: It does not differentiate
30 between yard locomotives and local locomotives.



1
2 MR. SINCLAIR: Q. I suggest to you in
3 1958 the predominance swung the other way?

4 MR. STECHISHIN: That would be one of the
5 reasons for the increase in tractive power. I think
6 that is one of the reasons you bought the diesels,
7 just to accomplish that.

8 Q. Would you agree in 1958 the predominance
9 had swung the other way; the predominance had swung
10 from tractive effort, from steam power to diesel power?

11 MR. STECHISHIN: In 1958, of a total of
12 4800 locomotives about 1900 were coal and oil burners,
13 or steam, and the balance, with a small figure for
14 electric, would be the diesels.

15 Q. The predominance, then, in that year
16 is diesels?

17 MR. STECHISHIN: Oh, yes, that is correct.

18 Q. And in 1958, would you agree that some
19 steam power was being held and not utilized because
20 the railways were running out of built-in miles?

21 MR. STECHISHIN: I have no way of knowing
22 that because DBS merely says locomotives in service.

23 Q. I say that does not designate whether
24 they are actually operating or whether they are in
25 stand-by service or whether they are just being used
26 sporadically, or any of those things?

27 MR. STECHISHIN: That observation would be
28 true of railway cars and also employees, I presume.

29 Q. I don't know what kind of employees you
30 had in mind that would be in stand-by service, Mr.



1
2 Stechishin.

3 MR. STECHISHIN: I have no idea.

4 MR. SINCLAIR: No.

5 COMMISSIONER MANN: Mr. Sinclair, on that
6 point of locomotives, what is a locomotive today?
7 Is it an A unit, a B unit, or a combination of one A
8 and two Bs?

9 MR. SINCLAIR: A locomotive, Commissioner
10 Mann, as I understand it is the complement of diesel
11 units, if you are talking diesels?

12 COMMISSIONER MANN: Yes, I am .

13 MR. SINCLAIR: Operating in multiple that
14 is used to pull the train.

15 COMMISSIONER MANN: Are the statistics
16 in your opinion satisfactory when they talk about
17 locomotives today?

18 MR. SINCLAIR: Of course not, because they
19 do not make enough differentiation.

20 COMMISSIONER MANN: Should there be in
21 your opinion a differentiation?

22 MR. SINCLAIR: All I know is it depends
23 on what you are using the statistics for, and I do know
24 that when they are used by people in the railroad they
25 take into account the fact that each diesel unit is
26 not a locomotive.

27 COMMISSIONER MANN: This is what I wondered
28 about, because I must say it is a little confusing.

29 MR. SINCLAIR: It is not confusing, sir, if
30 the data is built in a different way. It is maybe



1
2 confusing for people outside the industry, but I have
3 not heard of it causing any problem within the industry
4 because they have certain tests that they apply.

5 COMMISSIONER MANN: Yes. Thank you very
6 much.

7 MR. SINCLAIR: Q. Mr. Stechishin, I
8 understand your province, the province of Manitoba, has
9 suggested a proposal of a branch line maintenance fund?

10 MR. STECHISHIN: That is right, sir.

11 Q. I think it was clear, and if this is
12 not clear you can correct me, that any such fund would
13 not meet any deficit on branch line operation of
14 Canadian railways, but would be used wholly for the
15 reduction of rates? Correct?

16 MR. STECHISHIN: I think that is substan-
17 tially what we said, yes.

18 Q. Now, Mr. Stechishin, just for the help
19 of the Commission, would you give Manitoba's definition
20 of "branch lines"?

21 MR. STECHISHIN: I think the Manitoba
22 people would be quite prepared to accept the railways'
23 definition of branch lines, Mr. Sinclair.

24 Q. You would adopt an economic test?
25 Would you?

26 MR. STECHISHIN: Solely?

27 Q. No, for determining what is a branch
28 line. Would you determine it on an economic test;
29 would you take it on the basis of the tonnage test?
30 I would just like to know what you have in mind?



1
2 MR. STECHISHIN: I think we are quite
3 prepared to accept the railways' definition of a
4 branch line, Mr. Sinclair. In fact, I would love
5 to hear it.

6 Q. All right. Thank you very much.
7 It is already on file with the Commission.

8 MR. STECHISHIN: The definition of the
9 branch line?

10 Q. The Canadian Pacific have already
11 said what they consider to be ---

12 MR. STECHISHIN: I have heard branch lines
13 defined as other than main lines, and when they are
14 asked what a main line is they say it is other than
15 a branch line. I am still confused as to just where
16 the distinction does lie.

17 Q. Manitoba has some motor carriers for
18 hire -- motor carriers?

19 MR. STECHISHIN: There are a few, yes.

20 Q. A few?

21 MR. STECHISHIN: Yes.

22 Q. Do you want to change that few to
23 many?

24 MR. STECHISHIN: Do we want to change it?

25 Q. Do you want to change your answer?
26 Are you suggesting there are only a few motor carriers?

27 MR. STECHISHIN: Well, it is a relative
28 term. Certainly not as many as Ontario.

29 Q. In relation to the traffic moving
30 exclusive of grain?



1
2 MR. STECHISHIN: Now, you have lost me
3 again.

4 Q. Are you suggesting there are less motor
5 carriers operating in Manitoba in relation to the
6 traffic moving within the province exclusive of grain?

7
8
9 MR. STECHISHIN: I haven't made that cal-
10 culation, Mr. Sinclair. I would think there would be
11 less, but I don't know.

12 Q. Motor carriers are serving all points
13 of any size in Manitoba, aren't they, where railway
14 operations are given by the Canadian Pacific?

15 MR. STECHISHIN: I don't think there are
16 any motor carriers -- certain towns in Manitoba ---

17 Q. I said by Canadian Pacific?

18 MR. STECHISHIN: I'm sorry, by Canadian
19 Pacific?

20 Q. I went and looked at the map so you
21 wouldn't make that mistake.

22 MR. STECHISHIN: I can't think of any
23 Canadian Pacific Railway points that are not served
24 by motor carriers at the present time.

25 Q. And the motor carriers operate under
26 the jurisdiction of the Manitoba Motor Carrier Board?

27 MR. STECHISHIN: Yes, sir.

28 Q. Does the Motor Carrier Board issue a
29 motor carrier freight classification?

30 MR. STECHISHIN: Issue a freight classification



1
2 No, sir.

3 Q. The motor carriers' rates are fixed
4 by the board?

5 MR. STECHISHIN: By the Manitoba Board?

6 Q. Yes?

7 MR. STECHISHIN: Yes, they are.

8 Q. And I suggest to you that they are
9 fixed on the basis of the Canadian Freight Classifica-
10 tion?

11 MR. STECHISHIN: That is written right
12 into the regulations, I believe.

13 Q. That is right in the regulations. And,
14 then, the Manitoba Board in fixing rates for motor
15 carriers do not fix them on the cost for the motor
16 carriers' operations on the movement of individual
17 commodities, do they?

18 MR. STECHISHIN: I would think that the
19 cost would be a factor.

20 Q. That would be a factor. That is not
21 the question I asked. They do not fix them on the
22 motor carriers' costs; they use the Canadian Freight
23 Classification?

24 MR. STECHISHIN: They use highway mileages,
25 not rail mileages, so the factor of cost does enter
26 into it, and then the rate level is not the same as
27 the rail rate level, and when the truckers have
28 appeared for a rate increase they have presented cost
29 figures. Cost is a factor, and a large factor.

30 Q. Are you suggesting, Mr. Stechishin, that



1
2 the truckers' costs in Manitoba are the basis of
3 Manitoba's prescription of rates? I mean, now, for
4 the movement of individual commodities?

5 MR. STECHISHIN: For the movement of
6 individual commodities?

7 Q. Yes.

8 MR. STECHISHIN: No, no more so than the
9 rail costs or the movement of individual rail commo-
10 dities, or commodities by rail.

11 Q. Now, where a private carriage by truck
12 is used, the trucks then moving these goods result in
13 a higher cost of movement than for-hire truckers,
14 unless there is a balanced movement by the private
15 carrier. Is that not correct?

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2 MR. STECHISHIN: I am sorry, you will
3 have to repeat that now.

4 Q. Private carriers by truck.

5 MR. STECHISHIN: Yes.

6 Q. Unless they had a balanced movement
7 their costs of moving goods by highway are higher
8 than for-hire carriers.

9 MR. STECHISHIN: On the assumption that
10 the for-hire carrier also does not have a balanced
11 movement.

12 Q. Have you got private truckers in
13 Manitoba in any significant degree who have a balanced
14 movement as for-hire carriers?

15 MR. STECHISHIN: I have heard of some.

16 Q. In any significant degree, I said?

17 MR. STECHISHIN: It depends what you mean
18 by "significant degree".

19 Q. Are they a higher proportion in
20 total movement?

21 MR. STECHISHIN: If you include farm
22 trucks, yes. They are private trucks.

23 Q. Do you think that the farm trucks
24 have a balanced movement?

25 MR. STECHISHIN: Quite frequently they
26 bring in livestock and take back produce for their
27 neighbours. If it is done as an accommodation
28 without charging for it ---

29 Q. Now, I would just like to ask you
30 one point here which I don't quite understand. Maybe



1 you would assist me in it. It is in paragraph 16.
2
3 You say here:

4 "...the value of service is no
5 longer determined by the 'ability to pay'
6 of the commodity, but rather by the rates
7 charged by competing media of transport
8 or by the cost of the shipper performing
9 the service himself. Only where no
10 effective competition exists is the
11 value of service determined by the
12 ability to pay?

13 What do you mean by "the rates charged"?

14 MR. STECHISHIN: It is a general
15 proposition, Mr. Sinclair. What I had in mind
16 was where you may find a railway rate at a fairly
17 substantial amount above the cost of a particular
18 movement and the trucker will charge a lower rate
19 than the railways charge and the railways -- the
20 value of service to that shipper is no higher than
21 the truck rate compared to the value of service in
22 the competition.

23 Q. But the value of service is not
24 only determined by rate level, is it?

25 MR. STECHISHIN: There are other
26 considerations. Time in transit would be one; the
27 damage record of the particular carrier would be
28 another. I could think of others.

29 Q. And these would still put value of
30 service outside the rate level?



1
2 MR. STECHISHIN: I think that is true. You
3 referred to private carriers a moment ago. In many
4 cases they are higher, but the service may be
5 valuable to him although it may cost him more.

6 Q. And therefore there is room for
7 value of service pricing even where there is fully
8 effective competition, I suggest.

9 MR. STECHISHIN: I don't think I was
10 suggesting there wasn't room for value of service.

11 Q. And that is on the ability of the
12 traffic to pay.

13 MR. STECHISHIN: Not nearly to the same
14 degree, or not to the same degree.

15 Q. This is a matter of degree.
16 one
17 There is/point I meant to ask you about
18 and it is a point that I think perhaps needs
19 clarification. On coal, in general increase cases,
20 are you suggesting that coal taking flat increases
21 was put into effect because the railways wanted to
22 relieve against the impact of the percentage increase
23 on the long haul?

24 MR. STECHISHIN: No, I don't think I
25 suggested that. I think I said that came about
26 as the result of competition in central Canada.

27 Q. You say on page 12, paragraph 32:

28 "An attempt to offset the disabilities
29 of horizontal increases has been made by
30 the Canadian railways with regard to
coal traffic."



1
2 MR. STECHISHIN: I am speaking there of
3 short haul traffic, and that has reference to the
4 table on the next page where there were increases
5 given depending on the prevailing rate.

6 Q. And I would suggest to you that the
7 reason that flat increases were applied on coal
8 basically is because it maintained the differentials
9 between the various types of coal and their ability
10 to pay; that is their rate level reflected the
11 difference between anthracite and bituminous and
12 between lignite and bituminous.

13 MR. STECHISHIN: I don't even agree that
14 the coal was increased by flat cents per 100 pounds,
15 because there were other exceptions than the one I
16 have shown here. So if we compared the rate scale
17 that had existed in 1947 and today we would find it
18 wasn't a flat cent per 100 pound increase.

19 Q. I am suggesting to you it had, and
20 it had nothing to do with horizontal increases but
21 had significant historical significance in regard
22 to maintaining differentials. Do you agree or
23 not?

24 MR. STECHISHIN: I don't think I can agree
25 with your first proposition. If you increase one
26 rate by 50 cents a ton and another by 60 cents a
27 ton you are not putting on a flat increase.

28 Q. I am suggesting to you that the
29 application of the flat increase or graduated flats,
30 if you like, on one or two occasions was not done in



1
2 any attempt to overcome disabilities in the horizontal
3 percentage increase method but arose from historical
4 reasons and attempting to ---

5 MR. STECHISHIN: Possibly I should read
6 paragraph 34:

7 "However, this alternate method
8 did not prove entirely satisfactory in
9 that short haul shippers claimed the
10 method was unduly discriminatory against
11 them?

12 Q. And what you are suggesting is that
13 the short haul shipper under your method will only be
14 half as discriminated against because you are only
15 making it half a flat increase?

16 MR. STECHISHIN: I am not making it a flat.
17 Whether it be a quarter, half or a tenth will depend
18 on the increase.

19 Q. Will your method be applied to coal?

20 MR. STECHISHIN: I think that is a matter
21 that the railways can use their discretionary powers
22 on.

23 Q. Did you have in mind coal?

24 MR. STECHISHIN: If I might draw your
25 attention to Exhibit 153-D, you will notice I omitted
26 putting in figures on coal purposely because I didn't
27 know what the railways feel would be in their best
28 interest. They might still want to continue making
29 the same exception, they might not.

30 Q. Would Manitoba object to the railways



1 applying the 50-50 method to coal?

2 MR. STECHISHIN: Manitoba hasn't shipped
3 a car of coal in thirty years.

4 Q. So they wouldn't object to the
5 railways having full discretion in this regard?

6 MR. STECHISHIN: I don't know. We will
7 have to see what the proposal is.

8 Q. You are not saying that your basis
9 of 50-50 ---

10 MR. STECHISHIN: My basis is not 50-50,
11 Mr. Sinclair, please.

12 Q. Your basis is tied with average
13 terminal costs?

14 MR. STECHISHIN: Yes.

15 Q. Whether it is not clear it is to
16 be one railway or two or all railways, but some
17 average terminal costs and average line haul costs
18 to be reflected, to be the basis of increases.

19 MR. STECHISHIN: Under the horizontal
20 method and by your own evidence in the 19 per cent
21 case or 17 per cent case you were going to exempt
22 50 per cent of all traffic from the increases. We
23 are not suggesting if you still do this you will want
24 to be 50 per cent exempt.

25 Q. Fifty per cent of the coal traffic?

26 MR. STECHISHIN: The rates, not the coal.

27 Q. I am suggesting that under your
28 method you would have to exempt, because of attrition
29 and erosion, a yield of more than 50 per cent.
30



1
2 I think all I can do is to bring somebody,
3 Mr. Chairman, who is responsible to the Commission
4 in this regard and let him give that appraisal, and
5 I think that is what the Commission would want, and
6 I think the best way to test that is to call Mr.
7 Edsforth who was responsible for it.

8 MR. MAURO: If there is any question
9 of our witness not being responsible, we will be
10 very glad to listen to some of theirs. We have
11 listened to them for months. No one is responsible
12 except those of the railways.

13 MR. SINCLAIR Q: Now, Mr. Stechishin,
14 I have just one more series of questions to ask you,
15 and that has to do with whether you believe that
16 rates should be made on a car-mile basis.

17 MR. STECHISHIN: Mr. Sinclair, is that
18 in the brief anywhere?

19 Q. I want to know if you suggest that
20 rates should be made on a car-mile basis. I don't have
21 ~~to only~~ ask you questions ---

22 MR. STECHISHIN: I appreciate that, but
23 the only recommendations we have made here is what
24 we are suggesting. Anything that is not recommended
25 we are not suggesting.

26 Q. You don't think rates can be made on
27 a car-mile basis?

28 MR. STECHISHIN: Exclusively?

29 Q. Yes?

30 MR. STECHISHIN: No, I don't think they can.



1
2 Q. And you would think that a car-mile
3 basis does reflect the work performed by the railways,
4 do you?

5 MR. STECHISHIN: The car-mile basis is
6 a reflection of revenues, not of work done.

7 Q. And to look at work done you have to
8 look at the ton-mile?

9 MR. STECHISHIN: Not exclusively.

10 Q. But a car-mile basis doesn't indicate
11 the work, does it?

12 MR. STECHISHIN: A car-mile basis is
13 a better indication of the reasonableness of a rate
14 charged than a car-mile basis.

15 Q. You think that?

16 MR. STECHISHIN: Yes.

17 Q. Who supports you in that view?

18 MR. MAURO: Well, if we are going to start
19 bringing in ---

20 MR. SINCLAIR Q: I want to know if
21 anyone supports you in that view.

22 MR. STECHISHIN: I haven't canvassed
23 anybody to find that out or what their reactions are
24 to that, but I certainly think it is the better
25 indicator.

26 MR. SINCLAIR: Well, then, Mr. Chairman,
27 Mr. Mauro seems to be very anxious, so I will stop.



1
2 THE CHAIRMAN: Mr. Balch?

3 COMMISSIONER BALCH: I have no questions.

4 THE CHAIRMAN: Mr. Gobeil?

5 ---BY COMMISSIONER GOBEIL: Q. Mr. Stechishin,
6 I heard your solution with respect to the horizontal
7 increase. In principle, or on paper, it might work
8 fine, but if your solution was applied to the short
9 haul traffic there would be a greater increase, and
10 a good deal of that traffic would be lost to the
11 trucks. You have given thought to that?

12 MR. STECHISHIN: I certainly have, Mr.
13 Gobiell, yes.

14 Q. And you have reason to believe
15 that it will not be the case?

16 MR. STECHISHIN: I have made an analysis
17 of the Waybill Analysis, as I mentioned earlier,
18 and I checked the incidence, if I might use that
19 term, on rail rates -- that is, the percentage of
20 cars moving in each mileage block which is competitive
21 and non-competitive -- and I found that the incidence
22 of competitive traffic is distributed surprisingly
23 evenly right through the rate structure. I found
24 that there are just as many competitive cars in
25 relation to the total cars along the entire scale.

26 Q. If on the short haul the rail rates
27 were increased do you have reason to believe that
28 the trucks might take advantage of that and use that
29 as an umbrella, and put on an increase?

30 MR. STECHISHIN: That has been the



1
2 experience in a number of cases, but it applies to
3 both ends of the rate scale, and I think you have more
4 of an umbrella when you lift the 2,000 mile rate
5 by a dollar than if you lift the 50 mile rate by
6 one or two cents. It is a question of whether
7 you lose traffic at this end of the scale, or at this
8 end of the scale, and our studies indicate that
9 it is immaterial whichever method you use. In
10 either case you are going to lose some traffic. The
11 horizontal method makes for more competition on the
12 long haul, and the method we advocate may make more
13 competition on the short haul, but there is no
14 evidence to indicate that the incidence is heavier,
15 and I suggest that one or two cents on a short haul
16 is more susceptible than a dollar increase on the
17 long haul.

18 Q. In dealing with your long haul and
19 short haul you claim, and you use examples to prove
20 it, that the rate on a haul over a longer distance
21 to an intermediate point could stay as it is -- that
22 is, it would not be necessary to reflect the
23 geographic location, or the shorter distance -- but
24 that when it was from an intermediate point it
25 should reflect that.

26 MR. STECHISHIN: That is right. That
27 difference is based on the impact of the two
28 approaches on rail revenue.

29 Q. On page 51 in the first case, in
30 the second part there, you are assuming that even



1
2 if a reduction from \$4.00 to \$1.00 is given to
3 Vancouver they would still keep the traffic to
4 Winnipeg at \$2.00?

5 MR. STECHISHIN: Yes.

6 Q. And in the other case, which is
7 the most advantageous -- this is where they get the
8 most benefit -- you take it for granted that if they
9 do the same thing they will lose the Winnipeg market
10 because you move from 500,000 pounds equally
11 distributed at normal revenue, and then you assume
12 right away that there is nothing moving from Winnipeg
13 to Vancouver?

14 MR. STECHISHIN: Because the Winnipeg
15 buyer in the first illustration, Mr. Gobeil, does
16 not have any chance of getting the \$1.00 rate. He
17 is going to buy just as much as he did before in the
18 first case. In the second case, the Vancouver
19 buyer has his choice of either buying it from Toronto
20 at \$1.00 or from Winnipeg at \$2.00, so he is going
21 to buy it from Toronto at \$1.00, everything else
22 being equal. It is a question of the buyer having
23 an option in one case, and not having it in the
24 other.

25 Q. You say from Winnipeg to Vancouver ---

26 MR. STECHISHIN: No, in the first case
27 it is "from".

28 Q. In the first example ---

29 MR. STECHISHIN: Yes, it is to Vancouver
30 and to Winnipeg. It is one shipper in Toronto shipping



1
2 to Vancouver and to Winnipeg. Now, what he does
3 with his Vancouver rate or price has no bearing.
4 That is the rate to Winnipeg. The Winnipeg buyer
5 has not any way of getting that lower rate so he
6 will continue to buy at \$2.00. It is the buyer
7 in one case, and the shipper in the other. The
8 shipper must meet competition; the buyer can only
9 take advantage of competition if it is offered to
10 him.

11 Q. But does not that mean that the
12 railways may gamble, and say that they will still
13 ship at \$2.00?

14 MR. STECHISHIN: It is possible. This
15 is not necessarily 100 per cent. I was trying to
16 illustrate what would happen in the absence of
17 other considerations, but if there are other
18 considerations they might do it. It may be that
19 the man can still continue to ship at a rate of
20 \$2.00 as opposed to a rate of \$1.00 from Toronto
21 to Vancouver.

22 Q. And in view of that the railways
23 would be justified in proceeding as they are
24 proceeding now?

25 MR. STECHISHIN: If he continued to ship
26 in the same volume, but it is an assumption which I
27 think is illogical unless there are other
28 considerations.

29 Q. Is it not an assumption, too, that
30 they will not ship at all?



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2 MR. STECHISHIN: To go to the extreme,
3 it is an assumption. I think there will probably
4 be some traffic, but on the other hand there is no
5 reason why the buyer should buy from Winnipeg. It
6 is the buyer's choice. The seller may want to
7 ship, but it is whether the buyer wants to buy or
8 not which determines whether the traffic moves, and
9 not whether the shipper elects to ship it.

10 Q. Mr. Sinclair asked you a few minutes
11 ago about your branch line maintenance fund.

12 MR. STECHISHIN: Yes, sir.

13 Q. This would be only \$7 million
14 assuming there is a deficit on 3,000 miles of branch
15 lines, but this fund will not take care of the branch
16 line deficit completely, will it?

17 MR. STECHISHIN: Well, this is merely a
18 proposal, and the figures that we put here are a sort
19 of an indication. I think there has to be much more
20 study made to see what the amount would be. We would
21 have to define branch lines, as I think was pointed
22 out earlier. It may be that if the Commission
23 decides to accept it, and if Parliament decides to
24 accept the recommendation of the Commission, that
25 they might make it 100 per cent; I do not know.
26 We are merely trying to illustrate that this is one
27 place in which the railways might be relieved of some
28 of the burden.

29 Q. Yes, but only some of the burden.

30 MR. STECHISHIN: Parliament may decide



1 to relieve them of the whole burden.

2
3 MR. MAURO: Did you say the branch line
4 deficit was \$7 million? It is \$70 million.

5 COMMISSIONER GOBEIL: It is \$70 million,
6 and it may be more than that.

7 Q. Your fund would be only for the
8 maintenance of the track?

9 MR. STECHISHIN: Yes.

10 Q. And if the deficit is higher than
11 \$7 million that deficit will have to be taken care
12 of by a subsidy, as you suggest all deficits should
13 be taken care of, if the railways, because of national
14 policy are forced to give the service?

15 MR. STECHISHIN: That is correct.

16 MR. SINCLAIR: Mr. Gobeil, so that I may
17 understand your questions may I say that I thought
18 it was made clear that under the Manitoba proposal
19 any monies that would be paid would be transmitted
20 immediately, forthwith, as soon as reasonably possible --
21 the last expression may be a better way of saying
22 it -- towards a reduction in class and commodity
23 rates throughout Canada.

24 MR. MAURO: The same as the bridge subsidy.

25 MR. SINCLAIR: And if there is a deficit
26 operation on branch lines that was a burden because
27 of rates, or anything else, this would not in any
28 way meet that problem.

29 COMMISSIONER GOBEIL: Do you mean the
30 subsidy would be used to reduce the freight rates?



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MR. SINCLAIR: That is right, sir.

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MR. STECHISHIN: Mr. Gobeil, if you reduce the level of freight rates in Canada you suddenly would yield a greater -- you would have less of an impact on competition. One of the reasons why the trucks complained of subsidies to the railways was because they said every time you give the railways a subsidy it means that their rates are lower, and it makes it that much more tougher for the trucks to do business.

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COMMISSIONER GOBEIL: At the same time right now the C.P.R. is making a five per cent return, or a three per cent return, or it is balancing even -- you do have a little bit of a surplus on the whole operation?

17

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MR. SINCLAIR: Up to now they are still in a profitable position, yes, sir.

19

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COMMISSIONER GOBEIL: Then, if they receive on account of a deficit operation -- if they receive from the branch line passengers and rates \$125 million then the profit will be in a high bracket and, at the same time, the other rates would benefit a little?

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MR. SINCLAIR: Yes, they will benefit, sir, if all these things happen, and which I certainly hope do not happen because it is not the position of Canadian Pacific that any subsidy be paid on the passenger service, or any subsidy be paid on branch line service. But, assuming that they do happen then



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2 certainly there would have to be a substantial reduction
3 in the general rate level because you are talking of
4 \$125 million, which is \$60 million odd plus \$35 million --
5 for Canadian Pacific that would far exceed the permissive
6 level of earnings and this, of course, would resolve
7 into a reduction across the board in rates because
8 of the numbers you have used.

9 COMMISSIONER GOBEIL: Q: I have just
10 another question, Mr. Stechishin. In your block
11 system study it seems that you have shown at least
12 some indication that it would be a good proposition,
13 and yet at page 115 you seem almost reticent about
14 it, but you say in paragraph 247:

15 "Our studies have not reached the
16 stage where we would desire to make a
17 positive recommendation that the block
18 system be adopted for all rail freight
19 rates in Canada."

20 I gain the impression that you are afraid of something
21 there.

22 MR. STECHISHIN: I am just afraid that I
23 do not know enough about it at this time to make a
24 positive recommendation. I recall in the cross-
25 examination yesterday by Mr. McDonald that he said
26 there may be an impact on rail revenues, for example,
27 and at that time we suggested that it would be
28 interesting to see the effect on the express
29 companys' revenues when they adopt the block system.
30 If I had that kind of information and saw it actually



1
2 added to the revenue of the carrier then I would be
3 in a better position. There are other considerations
4 that come into it. I was intrigued in working
5 out the block system, and a rate structure which would
6 result from a block system between the principal
7 centres of Canada, and found that it is closer to
8 that which we had when the railways were able to
9 build up a rate structure. In other words, it
10 maintains the groups A and B, at least to an extent,
11 whereas they are presently maintained artificially,
12 and it maintains parity between Vancouver and Victoria.
13 Things like that that get blown up in the rate
14 structure would be restored in a moment. As I say,
15 it is a very complicated subject, and it would
16 require a tremendous amount of study, and certainly
17 far, far more information than is available to us right
18 now.

19 Q. But what would you have done? Your
20 impression is that it would be better to track the
21 mileage?

22 MR. STECHISHIN: I think, possibly, some
23 compromise between track mileage and the block system
24 could be worked out. I do not like to tie myself
25 down to any one approach to railway rate making, and
26 abandon all of the others. I think there must
27 be a combination of two or more.

28 COMMISSIONER GOBEIL: Thank you.

29 THE CHAIRMAN: Mr. Anscomb?

30 ---BY COMMISSIONER ANSCOMB: Q.: I do not know that



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2 I wish to ask you anything, Mr. Stechishin, except
3 with respect to a further elaboration of Mr. Gobeil's
4 discussion of this track mileage problem. Personally,
5 at the moment I cannot see any use for it at all
6 except that it is a suggestion for the public treasury
7 to reduce freight rates somewhere. To come along
8 and state that you want a track maintenance fund
9 to help the railways maintain their property in
10 competition with the public highways which the public
11 pay for exclusively, except for the revenues from
12 gas and oil, I think might have some merit, but why
13 go to all of that trouble and all of that investigation
14 and all of that checking back and forth for \$7.5
15 million? Why not bluntly say: "Give us \$7.5
16 million to help out the freight rates"? Is there
17 any reason at the back of your mind? You are certainly
18 not doing the railways any good. You are not solving
19 any problem, whether it is the Canadian National
20 or the Canadian Pacific.

21 MR. STECHISHIN: This is not exclusively
22 a railway problem. There are people living in
23 those areas which are served by branch lines who
24 would suffer. If you tear up the railway track
25 you are going to have those people as public charges
26 anyway. This is more than a transportation problem,
27 and I recognize that. : ! , !

28 ? ~~Q. I do not want to interrupt you, but~~
29 are there many places in your province -- and perhaps
30 my colleague the Chairman, would know of worse



1
2 situations -- where there is no highway, and no
3 other means of transportation other than the railway
4 itself?

5 MR. STECHISHIN: It is not just a question
6 of having a highway. It is a question of the nature
7 of the highway. It is a question of the disposition
8 of the existing grain elevators. There is the
9 case of moving in items like coal for burning over
10 the highways at the cost that would entail as
11 compared with the cost of moving it in by rail.
12 There is a number of considerations.

13 Q. In other words, your highway system
14 is not effective enough to carry those loads?

15 MR. STECHISHIN: Certainly not in northern
16 Manitoba.

17 Q. I hear so many talk about pulling
18 up the railway lines, and the national treasury paying
19 the cost of the transportation problem, but let me
20 put to you -- I am not arguing whether anybody should
21 pay the cost, and I have my own views on that, but
22 I am going to put this problem to you: If you have
23 a mileage track -- and I do not care how long it is --
24 on a so-called branch line where there is no road
25 and no other means of transportation, and you pull
26 that track up, then why is that in the national
27 interest? Is not that in the provincial interest
28 inasmuch as the province should have put in a road,
29 or given your own people some ingress and egress?

30 MR. STECHISHIN: Well, it is rather



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2 difficult to pin it down to a provincial problem
3 as opposed to a national problem, Mr. Commissioner
4 Anscomb. Many of those people's parents or
5 grandparents came out under a homesteading scheme
6 which was promoted by the federal government to get
7 those people onto the land. It is rather hard to
8 tear up track and leave those people there when they
9 came there as the result of federal policy. You
10 are getting away from the field of transportation
11 when you bring this up, and I am floundering a bit.

12 Q. You will agree with me that the
13 question of a system of highways is a provincial
14 problem?

15 MR. STECHISHIN: It is a provincial
16 responsibility to build highways -- I appreciate that --
17 but, certainly the federal government itself has
18 felt there is some national interest in it since
19 it has contributed substantially to the trans-Canada
20 highway.

21 Q. That is one national problem where
22 they have stepped out of the realm of their own
23 responsibility.

24 MR. MAURO: The Roads to Resources.

25 MR. STECHISHIN: Yes, that is another
26 illustration of where the federal government is
27 taking an interest in the highways within the
28 provinces.

29 Q. I say they have on a national
30 scale with respect to one highway, but under the



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2 Constitution the road problem is a provincial
3 responsibility.

4 MR. STECHISHIN: Under the existing law
5 I understand that is correct.

6 COMMISSIONER BALCH: Mr. Chairman,
7 following along Mr. Anscomb's questions, can we
8 really separate the provinces from the federal
9 question?

10 MR. STECHISHIN: My personal feeling is
11 no, sir.

12 --BY COMMISSIONER BALCH: Q. It may be a
13 provincial question, but in the final analysis the
14 federal government has to provide support to a
15 certain amount. Can we really separate the
16 provinces in that way?

17 MR. STECHISHIN: My feeling is that we
18 cannot. I feel this is a national problem, and
19 that is why we put it into the brief as a national
20 problem rather than a provincial problem. On
21 the other hand, I think it is quite evident that
22 some of the provinces certainly could not bear
23 the financial burden of having to build numerous
24 new roads.

25 MR. SINCLAIR: Would you include Manitoba
26 in that?

27 THE CHAIRMAN: We will adjourn now until
28 2:00 o'clock.

29 ---Luncheon adjournment.
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2 ---On resuming at 2.00 p.m.

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4 THE CHAIRMAN: Order, please.

5 COMMISSIONER BALCH: Before we proceed,
6 would you mind if I asked Mr. Sinclair a question.

7 Now, this 21 per cent increase for the
8 executive clerks and stenographers -- that is, up until
9 1958 -- do you think that will be changed quite a bit
10 between 1958 and 1960 the other way?

11 MR. SINCLAIR: Under the general classifi-
12 cation, Mr. Commissioner Balch, a large group of em-
13 ployees who were once in transportation -- there have
14 been a lot of changes in the classification, but this
15 is a major one that I can speak of. All the police
16 forces of the railways were transferred from trans-
17 portation grouping to general. This is both the
18 uniformed and special investigation staffs who were
19 prior to 1956 under classification transportation.

20 Now, there were also adjustments in the
21 groupings under signals, and there is quite a major
22 change, not only in what is classified general, what
23 is classified maintenance of way, maintenance equip-
24 ment, and so on, but also within the groupings.

25 These cover all the various trades and
26 occupations of the railways, so that when you ask whether
27 there has been an increase in clerical staff since 1953,
28 I would say, Mr. Commissioner Balch, that in certain
29 areas, speaking for the Canadian Pacific, I think
30 there are more, for instance, in the law staff, there



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2 are more in the tax staff than there were in 1958.

3 THE CHAIRMAN: Research?

4 MR. SINCLAIR: More in research. I would
5 think integrated data processing works exactly the
6 opposite way. There have been, sir, some increases
7 since 1958 in the Canadian Pacific in the Department
8 of Labour Relations, and there have, of course, been
9 some reductions in clerks.

10 COMMISSIONER BALCH: Well, that was in my
11 mind. There seemed to have been so many reductions in
12 the clerical staffs in the various points across the
13 country, both Canadian National and Canadian Pacific.

14 MR. SINCLAIR: Well, for instance, as a
15 result of the reorganization of the operating depart-
16 ments on Canadian Pacific a year ago July, there were
17 substantial reductions arising from the elimination
18 of the general superintendents' offices, and flowing
19 also from that the change in data centres. And,
20 also, a small one, also flowing from that -- a change
21 in the Claims Department setup which is partly a
22 matter of reorganization and partly a matter of
23 changing business, fall-off in passenger and reduced
24 freight volume.

25 Unless you did a complete analysis, and
26 I wouldn't be surprised that there would be some
27 falling off, but whether it would be as great as in
28 other classifications, I would doubt it.

29 COMMISSIONER BALCH: Would not the increase
30 in personnel in the higher echelons, we will say --



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2 wouldn't that be reflected in the wage costs of the
3 railroads?

4 MR. SINCLAIR: Well, of course, sir, it
5 all depends on what you term the higher echelons of
6 the railways. If you mean classes 1, 2 and 3 in
7 the classification, the impact of that group on the
8 total wage costs of the railway is minuscule
9 percentagewise, or any other way you want to look at
10 it.

11 THE CHAIRMAN: The number would not be large?

12 MR. SINCLAIR: The number would not be large,
13 no, sir. I am talking about the proportion of classes
14 1, 2 and 3 on the classification as to the total number
15 of employees or total compensation in classes 1, 2 and
16 3 against any group. This is a misconception, sir,
17 that is held by some that, speaking for Canadian
18 Pacific, on Canadian Pacific the executive cost is
19 higher in comparison to total wage costs, or to any
20 other measure that you want to get. And while it has
21 always been the position of the company that it will
22 not disclose, and does not disclose, salaries of its
23 executive officers, nevertheless there are certain
24 groupings that have been made public and these can be
25 used for statistical ratios, if you like, compared to
26 other businesses, and so on, and I can assure you that
27 they have been looked at, and you will see they do not
28 fit with the conception that is sometimes held that
29 Canadian Pacific or the railway industry in Canada is
30 heavily weighted with high executive numbers or salaries.



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2 COMMISSIONER BALCH: Has the supervisory
3 staff -- from the police department I go down to
4 trainmasters -- has the supervisory been increased?

5 MR. SINCLAIR: Increased?

6 COMMISSIONER BALCH: The numbers?

7 MR. SINCLAIR: I would say under that group
8 on Canadian Pacific the reverse, sir, since 1958. They
9 have been lessened. You are talking now about, say,
10 from the level of general manager to assistant super-
11 intendent and trainmasters?

12 COMMISSIONER BALCH: Trainmasters, and so
13 forth.

14 MR. SINCLAIR: They would. On the C.P.R.,
15 sir, I would think have been reduced since 1958.

16 COMMISSIONER BALCH: Thank you, Mr. Sinclair.
17 Thank you, Mr. Chairman.

18 MR. COOPER: Mr. Chairman, before the
19 Commission adjourns its present hearings, I consider
20 that it would be of great advantage to know exactly
21 when we may expect to receive the last precis of
22 evidence which is to be submitted by the Province of
23 Alberta. I refer to the precis of evidence to be
24 prepared or which is in the course of preparation by
25 Mr. Banks.

26 MR. FRAWLEY: You should add, I am sure you
27 did that inadvertently, Mr. Cooper -- you must add
28 Manitoba.

29 MR. COOPER: I would be very glad to add
30 Manitoba.



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2 MR. FRAWLEY: Oh, yes, you must, for
3 fifty per cent of it.

4 MR. COOPER: Well, either Alberta or
5 Manitoba might give us some information on the point
6 which I have raised.

7 MR. MAURO: I will let my senior lead.

8 MR. FRAWLEY: I have only this to say by
9 way of a preliminary remark. If the Commission
10 proposes to fix a date for the filing of the Banks
11 brief, I would most respectfully ask that it not be
12 fixed without a consultation with my friend Mr. Mauro
13 and myself. I particularly, Mr. Chairman, do not
14 want a date fixed and then the vilification from the
15 Canadian Pacific Railway start just as soon as the
16 date is fixed. I have had enough vilification
17 from the Canadian Pacific with respect to the 15th
18 of August.

19 THE CHAIRMAN: We want to get on with the
20 job.

21 MR. FRAWLEY: It is in your hands; you may
22 fix a date, but please, please, consult with Mr. Mauro
23 and myself before the date is fixed.

24 THE CHAIRMAN: We are consulting now.

25 MR. FRAWLEY: We cannot do that without
26 communicating with Mr. Banks. Surely, that is funda-
27 mental. We could not possibly speak to a date now.
28 Is there any feeling that we must? Is there any
29 feeling that we should agree to a date without con-
30 sulting with Mr. Banks? If the Commission desires



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2 to fix a date on that basis, then ---

3 THE CHAIRMAN: We thought you had consulted
4 him.

5 MR. FRAWLEY: We have not consulted him with
6 a view to finding out when that brief can be filed.
7 You must remember that exhibit 132 was filed some time
8 ago and that changed the whole basis of the affair.

9 COMMISSIONER GOBEIL: I am speaking for
10 myself, not for the Commission. I am most sympathetic
11 with Alberta and Manitoba, but at the same time you
12 know what our problems are. We want to finish. Could
13 you not -- and I know that the Chairman and all the
14 members of the Commission want to make it easy for you
15 -- but instead of giving you a date, could you not give
16 us an early one?

17 MR. FRAWLEY: I would like that approach
18 very, very much better, sir.

19 COMMISSIONER GOBEIL: Could you not give it
20 now? Your Mr. Banks -- he is working for you; you
21 are not working for him.

22 MR. FRAWLEY: Oh, well, yes, you could put
23 it that way. He is a consultant; he is not on any-
24 body's payroll with the threat of dismissal hanging
25 over his head.

26 In any event, I think your suggestion is
27 a very good one. We will consult with Mr. Banks and
28 then suggest a date.

29 COMMISSIONER GOBEIL: When?

30 MR. FRAWLEY: When will we do that? Well,



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2 we could consult with him this afternoon by telephone,
3 I imagine, sir.

4 COMMISSIONER ANSCOMB: Mr. Chairman, I
5 think it is perhaps unusual that individual members of
6 the Commission express themselves, but in view of the
7 fact that we are, I assume, closing up this afternoon
8 until October 11th, I do not want anybody to have any
9 misapprehension as to where I stand.

10 I think the date should be set, and I think
11 long ago we should have been told when these things
12 were going to have been in, and they should have
13 been in. To continually come to this Commission
14 and say that we cannot get our consultants here, or
15 cannot find them somewhere else, is utter nonsense,
16 as far as I am concerned.

17 When you employ consultants, if they cannot
18 meet your requirements, then, in my profession, you
19 discharge them and get another one. I think if there
20 is not an answer this afternoon the Board should rule
21 the date when it is going to be in, and if it is not
22 in, it should be out.

23 THE CHAIRMAN: Do you suggest a date, Mr.
24 Frawley?

25 MR. FRAWLEY: Could I set a date now?

26 THE CHAIRMAN: Suggest one?

27 MR. FRAWLEY: Suggest one. No, I cannot,
28 sir, with the greatest of respect. And, speaking
29 of dates, may I just say that I am concerned with
30 presenting to this Commission the freight rate views and



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2 grievances of the province of Alberta, a province that
3 is not the least of the provinces in the Canadian
4 Confederation, and I find that not only an honourable
5 duty, but a burdensome one, and one that I am going
6 to discharge to the best of my ability, with the
7 greatest respect to the Commission.

8 THE CHAIRMAN: You have done splendidly, but
9 still we must get on with the job.

10 MR. FRAWLEY: I have to make the record
11 clear, sir, when it is suggested, even at this late date,
12 that I in my search for consultants to present the
13 case for the Province of Alberta -- and I speak for
14 the Province of Alberta and not for myself -- that I
15 must put these things on the record in justice to that
16 province, and I have endeavoured to get consultants
17 to come to write briefs for me and present them to this
18 Commission, and I resent more deeply than I can say
19 the suggestion that I have been delinquent and that
20 I should have withdrawn my brief -- probably the
21 Province of Alberta should have withdrawn because I
22 had difficulty in getting the right kind of brief to
23 be presented to this Commission. Would this Commission
24 be any better off, sir, if the Province of Alberta
25 weren't here at all?

26 THE CHAIRMAN: That is not the issue.

27 MR. FRAWLEY: It almost seems to be the
28 issue. With great respect, sir, that seems to be the
29 issue: should Alberta be presenting its grievances
30 to this Commission, or should it be eliminated from the



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2 Commission.

3 THE CHAIRMAN: Mr. Banks has been working
4 since last November?

5 MR. FRAWLEY: Yes, sir, since some time
6 around there.

7 THE CHAIRMAN: Well, surely he would have
8 a submission ready for us now?

9 MR. COOPER: Mr. Frawley is suggesting that
10 perhaps this matter could be settled by a conference
11 off the record. From my own point of view, I think
12 it is a matter that has to be settled, and if it can
13 be settled best that way in the view of the Chairman
14 and the Commission, that is satisfactory.

15 MR. MAURO: I simply want to say, Mr.
16 Chairman, that I feel an obligation to this Commission
17 to get a definite date. I will, in concert with
18 Mr. Frawley, this afternoon phone Mr. Banks and I
19 will obtain a date from Mr. Banks, and I wish I could
20 go further, Commissioner Asseomb and Commissioner
21 Gobeil. I feel you have a right to know that date,
22 and this afternoon there will be a date fixed.

23 THE CHAIRMAN: Well, thank you. We appre-
24 ciate your approach, and we wish you would let us know
25 today or tomorrow, after you have spoken to Mr. Banks,
26 as we want this in.

27 Mr. Mann?
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EXAMINATION BY COMMISSIONER MANN:

Q. Mr. Stechishin, perhaps we can leave the future alone for a minute and return to the present and your brief on page 6 of your submission.

You are talking there about the basic principles that enter into the setting of the rate structure. You say:

". . . the overriding principle is that of national policy and public interest."

MR. STECHISHIN: Yes, sir.

Q. Now, as I read this, Mr. Stechishin, you are using these words in the context of the railway rate structure. What I wanted to ask you about is whether this overriding principle of national policy and the public interest also enters into the determination of rate structures of other carriers?

MR. STECHISHIN: Yes, it does. It varies from province to province; from carrier to carrier. I would imagine that it is to a lesser degree than it does with railway rates, and I would base that primarily on the fact that the other carriers individually or collectively carry less traffic than the railways.

Q. Perhaps we might, for the moment, confine our discussion to the role of the federal authority in Canada and to what extent is their national policy and public interest as a determinant of rate structure or a determinant use of rate structures of other carriers in so far as federal action may



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2 determine the financial well-being or the future of
3 other agencies of transportation?

4 MR. STECHISHIN: I do not know of any
5 that is so treated to the same extent as the railways.
6 Certainly the federal government has entered into
7 the regulation of carriage, of rates by water, and I
8 suppose either directly or indirectly it is a factor
9 in the setting of rates by air. The government has
10 not at the present time taken any steps -- the federal
11 government, I am speaking of here -- to regulate the
12 rates of the highway carriers.

13 Q. In your view and that of the province
14 of Manitoba the federal government has a definite role
15 to play in transportation, not only railway transportation
16 but all kinds of transportation?

17 MR. STECHISHIN: That is correct, yes.

18 Q. You do not subscribe to a view that is
19 perhaps more current in the United States that the
20 states should play a mutual role in the promotion
21 of ---

22 MR. STECHISHIN: By the "states" you mean
23 the federal government?

24 Q. Yes, the federal authority in the
25 context?

26 MR. STECHISHIN: This is not in this brief,
27 but in Winnipeg, of course, there was that proposal of
28 the -- I am trying to think of the detail of it --
29 the coordinator -- not the coordinator, but the
30 national transportation body be established to carry on



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Stechishin
(Mann)

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2 a continuing study of transportation. I think we
3 can go that far.
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2 Q. The province of Manitoba still
3 subscribes to that thought that was expressed by
4 the Premier in Winnipeg.

5 MR. STECHISHIN: Oh, yes.

6 Q. Can we turn to page 8 of your
7 submission, Mr. Stechishin, and I refer you in
8 particular to the passage that says:

9 "Those shippers who have been
10 denied lower commodity rates and are
11 paying maximum class rates feel their
12 injury is compounded when, under
13 horizontal percentage increases, their
14 actual increase in cents per hundred
15 pounds is greater than that assessed
16 against more fortunate shippers who
17 have been accorded lower commodity
18 rates."

19 Are you leaving the impression or is it
20 your intention to leave the impression that the
21 opposition to horizontal percentage increases becomes
22 exclusively or predominantly from shippers moving
23 traffic under class rates?

24 MR. STECHISHIN: No, I don't think I
25 intended to convey that impression. I think the
26 objections come from shippers who are moving at
27 either class or commodity or non-competitive rates.

28 Q. What you are saying here is that
29 people who feel their injury compounded are those
30 under non-competitive commodity rates or class rates?



1
2 MR. STECHISHIN: No. I think the
3 statement here should stand. What I had in mind
4 here was those shippers who might have applied to
5 the railways for a commodity rate and been denied
6 and they will see another shipper somewhere else
7 in the country moving his goods at 80 per cent of
8 the class rate. Now, he is not personally injured,
9 but he is annoyed by what he regards as differential
10 treatment, and when the invoice comes in he finds
11 that that 20 cents is now 24 cents. That is what
12 I had in mind in the sentence.

13 Q. On page 14 of your submission, also
14 going over into page 15, you have a short discussion
15 about American practices with regard to general
16 revenue cases.

17 MR. STECHISHIN: That is right, sir.

18 Q. I have here some information, Mr.
19 Stechishin, on the latest application of the American
20 railroads for an increase in their rates, and the
21 application I think has been docketed and a master
22 tariff issued under designation ex parte 223.

23 MR. STECHISHIN: I have it here.

24 Q. Could you perhaps give us the principle
25 features of the application made by the American
26 railways.

27 MR. STECHISHIN: I only got this the day
28 before I left the office and I haven't studied it in
29 detail. But just a preliminary examination of it
30 indicates quite a substantial departure from the



1 generally accepted practices in the past in increasing
2 rates in the United States.

3 Q. Could you tell us what that
4 departure is?

5 MR. STECHISHIN: There are no hold-downs
6 as such in this increase. But what they have
7 done here is on all rates -- they are speaking of
8 the general rates -- under 65 cents the increase
9 is a flat one-half cent per 100 pounds; over 65
10 cents, one cent per 100 pounds. That flat increase
11 would be applied whether the traffic had moved
12 a thousand miles at under \$10.00 or whether it moved
13 ten miles at a rate of 70 cents. It is not
14 related to the length of haul, it is related to the
15 present rates. There are a number of increases
16 here which are based on a flat number of dollars per
17 car. I have never seen this in an application of
18 this nature, and it would appear -- fresh fruits
19 and vegetables for example, \$2.00 a car. But it
20 doesn't matter whether there are 10,000 or 80,000
21 tons to that car, or whether the rate is \$18.00 or
22 \$1.60.

23 Q. The reason for the first appearance
24 of such an increase in this application was that the
25 per car rates of fresh fruits and vegetables are
26 relatively new in the American rate structure.

27 MR. STECHISHIN: They are relatively new,
28 yes.

29 Q. Then in brief, the significant
30



1
2 feature of this increase as you have just given it
3 to us is that this is not a percentage increase as
4 such, nor does it contain any hold-downs.

5 MR. STECHISHIN: That is correct, sir.

6 Q. So that is the first time in your
7 experience, is it, that the American railways have
8 applied for such an increase?

9 MR. STECHISHIN: To the extent that it
10 is here. I believe there were a number of previous
11 increases where there were a number of flat cent
12 increases. This is a case where there was no
13 percentage increase.

14 Q. I would like to deal with the
15 suggestion made by the province of Manitoba for
16 a change in applying general freight rate increases
17 in Canada. Under the method of the province of
18 Manitoba, as I understand it, short haul rates
19 would be increased rather more than they are under
20 a straight horizontal percentage increase method
21 as we know it now.

22 MR. STECHISHIN: Not necessarily. It
23 would depend on the rates at which that short haul
24 traffic is hauled.

25 Q. But the intention is to relieve the
26 long haul shipper, and I suppose the revenue that
27 is required to bring this about would have to be
28 obtained from someone else, presumably the
29 intermediate, long haul or short haul shipper to
30 the extent that it is possible.



1
2 MR. STECHISHIN: I think that is
3 inevitable.

4 Q. Under the American system under ex
5 parte 223 the reverse approach seems to have been
6 taken by the railways. The rates ~~under~~ 65 cents
7 are only increased by one-half cent, the rates over
8 65 cents by one cent. Is that an indication of
9 the possibility that short haul rates cannot bear
10 so much of an increase?

11 MR. STECHISHIN: I have to say that this
12 goes far, far beyond what we had proposed in Manitoba;
13 and I also want to point out that under our proposal,
14 if you were to bring it down to this small percentage
15 increase, you would find, and even under the present
16 proposal, the increase is less than it is for the
17 high. I haven't looked at the 65 cent figure, but
18 maybe we should do that, and I am referring here
19 to Exhibit 153-E. It is shown as a 13 per cent
20 increase under the 20 per cent basis and 10 per cent
21 under the proposal we proposed. But if you look
22 under the lower rates you will find that for a 25
23 cent rate we propose six cents. So the same principle of
24 putting an increase on a short haul or long haul
25 rated shipment is maintained, whereas some of the
26 increases here do not show that differential.
27 Certainly the one on vegetables is \$2.00 per car
28 regardless. But that goes beyond what we are
29 proposing. And this, incidentally, originates
30 from the railways; this is not imposed upon the



1
2 railways, this is suggested by the railways to
3 increase their revenue position.

4 MR. SINCLAIR: Did you say that 153-E
5 showed that there was under your method a lower
6 increase on short haul than there was on the ---

7 MR. STECHISHIN: No, a lower increase
8 on the low rated commodity than ~~there~~ was on the high
9 rated commodity.

10 MR. SINCLAIR: Of course, with all due
11 respect, in this application from the United States,
12 Commissioner Mann -- I didn't know that was to be
13 introduced -- there are certain factors involved
14 in that which could be explored.

15 COMMISSIONER MANN: I just wanted to
16 discuss it generally with Mr. Stechishin.

17 Q. In part of that discussion, Mr.
18 Stechishin, there is the following question:: do you
19 know when the increase is likely to become effective,
20 barring different action from the Interstate
21 Commerce Commission?

22 MR. STECHISHIN: October 24th of this year.

23 Q. Do you have with you the 17 per cent
24 judgment of the Board of Transport Commissioners,
25 Volume 48, J. O.R. & R. 16-A?

26 MR. STECHISHIN: Yes.

27 Q. Would you please have a look at
28 page 29, pages 29 and 30, of that judgment.

29 MR. STECHISHIN: I have it.

30 Q. You see that under line 2, marginal



1
2 notation 2, there are a number of types of rates
3 under the heading of "Description of Traffic" shown
4 there.

5 MR. STECHISHIN: Yes.

6 Q. International, overhead, import,
7 export and other related traffic?

8 MR. STECHISHIN: Yes, I have it.

9 Q. Are those the rates that took the
10 United States increases?

11 MR. STECHISHIN: That is what the
12 exhibit says: U.S. increases applied under column
13 B.

14 Q. And the present increase will be
15 applied to these rates?

16 MR. STECHISHIN: In normal circumstances,
17 I would say yes. I am not too sure what this
18 freeze is going to do to these rates.

19 Q. You think the government proposal
20 on the railway rates would apply in this case?

21 MR. STECHISHIN: I don't know. It may
22 not on international traffic but it says: "other
23 related traffic".

24 Q. Take the apple rate from the
25 Okanagan valley in central Canada. That is
26 related to the American coast rates?

27 MR. STECHISHIN: That is right.

28 Q. Have you any information as to
29 whether the tariffs have gone out, the supplements
30 have gone out, showing this?



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2 MR. STECHISHIN: I don't know. I haven't
3 looked at it for some time.

4 MR. GUEST: I understand the lumber rates
5 will be increased by one cent.

6 MR. SINCLAIR: If the Board of Transport
7 Commissioners approve.

8 COMMISSIONER MANN: Q. Could you turn
9 now please, Mr. Stechishin, to page 34 of your submission,
10 and you are dealing there with certain effects which
11 the bridge subsidy has had, and I want to refer you
12 particularly to your paragraph 78 where you say:

13 "The subsidy, for all practical
14 purposes, eliminated what had been a
15 highly competitive situation for east-west
16 traffic. As a result, the now captive
17 traffic was lost to the remaining
18 carriers, the C.P.R. and the C.N.R."

19 Now, we had discussion about this thing
20 before, and I would like to get your view about this.
21 Is that a possible effect of giving subventions to
22 any one carrier and not to all? Is that inherent
23 in the method of giving subventions to one carrier
24 only?

25 MR. STECHISHIN: I think that if you gave
26 subventions to one carrier and not another -- presuming
27 they are competitive before they started -- I think it
28 is bound to affect them. Yes, I think it is inherent.

29 Q. So there would be an effect of downward
30 pressure on the rate structure if you do that.



1 MR. STECHISHIN: Yes, I think it would do
2 that. That is a general proposition.

3 Q. On page 52, paragraph 115 -- and
4 this is where you speak about rates to intermediate
5 points -- you say this:

6 "It seems clear, that ~~once~~ competition
7 becomes a fact, the railways, from the
8 point of view of contribution to net
9 revenue should meet the competition
10 where it occurs and not reduce their
11 rates to intermediate points. The
12 railways obtain the least contribution
13 to net revenue when they are forced to
14 reduce their rates to intermediate points,
15 and in fact, would improve their financial
16 position by abandoning the traffic rather
17 than by making such reductions."

18 You have the same or a similar thought in
19 paragraph 117, where you say:

20 "...a reduction in the intermediate
21 rates has the most adverse effect on
22 rail revenues while a reduction in the
23 longer haul has the most beneficial
24 effects."

25 Now, one of the points made very strongly
26 by the evidence of Manitoba has been that the railways
27 should maximize their net revenue.

28 MR. STECHISHIN: Yes.

29 Q. A reduction of rates to intermediate
30



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2 points you say would have an adverse effect. In view
3 of these statements, do you think the time has now
4 come for the abolition of the one and one-third rule?

5 MR. STECHISHIN: I think it is almost
6 inherent in the recommendation we put in to this
7 section.

8 Q. I took it to be so, but I wanted you
9 to say it.

10 MR. STECHISHIN: I can't put a recommendation
11 into the brief that is not already here. I think you
12 will have to take the statement as it stands.

13 THE CHAIRMAN: Your brief is on behalf
14 of the province of Manitoba.

15 MR. STECHISHIN: Yes.

16 COMMISSIONER MANN: Q. It covers the
17 one and one-third rule.

18 MR. STECHISHIN: Not in the recommendation.

19 Q. It is not in conflict.

20 MR. STECHISHIN: It is not in conflict with
21 our recommendation; let's put it that way.

22 COMMISSIONER GOBEIL: As a matter of fact,
23 yours would be one and one-third less, not one and one-
24 third more.



1
2 Q. At page 66, Mr. Stechishin, -- and
3 this is with regard to the lake and rail rates --
4 your recommendation is that water carriers be required
5 to apply and show cause for any proposed rate in-
6 creases, and then in the recommendation No. 2, that
7 the relative rate characteristics -- I suppose for
8 that I could substitute "cost characteristics" --
9 should be reflected in the rate where the movement
10 takes place by more than one carrier?

11 MR. STECHISHIN: There is another sentence,
12 or phrase, there, namely, "to the extent that each
13 has participated in that movement."

14 Q. Yes. You had a discussion with
15 Mr. Sinclair in which he asked you what classification
16 is used by the Manitoba trucking industry, and the
17 answer to that was that it was Canadian Freight
18 Classification No. 20?

19 MR. STECHISHIN: That is correct.

20 Q. And I suppose consistency would re-
21 quire that the trucking industry should base its
22 rates also to a greater extent that is presently done
23 on its own cost characteristics; would that be
24 correct?

25 MR. STECHISHIN: I think it is coming
26 about of its own accord. The trucking industry,
27 although they use the Canadian Freight Classification
28 No. 20, are continually adding exceptions to that
29 classification which apply to the trucking movement.
30 I think that body of exceptions will grow until a group



1
2 of truckers will get together and give you a truck
3 classification.

4 Q. If I recall rightly -- and I am wondering
5 whether this is so -- in your experience there was at
6 one time a Canadian motor freight classification?

7 MR. STECHISHIN: There may have been in
8 eastern Canada, but I have never seen it.

9 Q. Is there one in the United States?

10 MR. STECHISHIN: Yes, there is.

11 Q. In page 74, Mr. Stechishin, there is
12 a couple of phrases on which this Commission needs a
13 lot more enlightenment than it has had so far. What
14 I am referring to are the phrases "public interest"
15 and "national interest". What I want to find out
16 is: Is the public interest synonymous with the national
17 interest?

18 MR. STECHISHIN: I think that question
19 was asked, Mr. Mann, and I believe I dealt with it
20 and said that as far as I could see it was.

21 Q. If you had an abandonment case that
22 concerned a couple of small localities somewhere,
23 what enters into the matter -- the public interest
24 of those localities or the national interest of Canada
25 in those localities?

26 MR. STECHISHIN: Mr. Mann, I do not think
27 we are proposing any change in the present procedure
28 on abandonment. I might just read the first sentence
29 on page 74:

30 "Our proposed scheme, which we have



1
2 entitled 'Branch Line Trackage Main-
3 tenance Fund' would be established
4 and operated in a manner similar to
5 the present east-west bridge subsidy
6 scheme. The fund would be operated
7 by the Board of Transport Commissioners."

8 And then:

9 "The railway would apply in the usual
10 manner for abandonment of branch lines
11 and would submit relevant cost data.
12 The Board would determine whether or
13 not the particular branch line operation
14 was in fact in the public interest."

15 Now, whatever "public interest" means in the present
16 Railway Act I am prepared to accept for the future.

17 Q. You see, the reason I ask you that is
18 because of the consequences which flow from your sug-
19 gestion, because although it is the public interest,
20 perhaps, of this particular locality, since a subvention
21 will be given by the federal government it then enters
22 into the national interest rather than the interest of
23 the public of the localities concerned, and this is
24 where I am seeking some guidance from you.

25 MR. STECHISHIN: I would prefer to leave it
26 as it reads at present in the Railway Act, and let the
27 Board decide whether it is or not.

28 Q. You are satisfied with the jurisprudence
29 of the Board on this question?

30 MR. STECHISHIN: On these particular matters,



yes.

Q. Dealing with your branch line trackage maintenance fund, the way I understand it would operate is that an application for abandonment would go forward as at present; the Board will use the same criteria as it uses at present, using its 50 per cent allocation formula of expenses to revenues, and then a decision is made on the facts of the case. If the Board finds that there is a public interest in the matter then money is paid out for the maintenance of way and structures -- is that it? -- maintenance of way and structures on the line under the abandonment application, or is it only the maintenance of way?

MR. STECHISHIN: We speak here of a branch line trackage maintenance fund, and we refer to trackage in the context in which it is used in the Railway Act. Whatever definition of "trackage" is given in the present Railway Act is the definition in which we use it.

Q. Would it not be cheaper in some cases to subsidize a truck line to perform that service?

MR. STECHISHIN: That is a very hypothetical question.

Q. Yes, but policy in its incipient stages is, perhaps, hypothetical.

MR. STECHISHIN: I would have to get more detail of the truck line run -- where is it, what are the circumstances, is there a highway established which has been paid for? If there is a highway which has



1
2 been paid for you may have one answer, and if you
3 had no highway then you would have to have another
4 answer, because there are those who argue that the
5 building of a highway is subsidizing the trucks.

6 Q. Let us suppose the branch line is not
7 remunerative because of a highway which roughly parallels
8 it, and yet the Board found that the maintenance of this
9 branch line was in the national or public interest.
10 In that case the branch line trackage maintenance fund
11 would come into play under your proposal. What I
12 wanted to know is under the situation as I have
13 postulated it here might it not be cheaper in some
14 cases, perhaps -- or, should there be some consideration
15 given to subsidizing a truck line over that highway?

16 MR. STECHISHIN: In the situation you have
17 postulated, Mr. Commissioner Mann, it seems to me that
18 the Board would decide it was not in the national
19 interest to maintain the line. I find it difficult
20 to picture a situation where the Board would say: "We
21 must keep that branch line" where this other alternative
22 is open.

23 Q. There is one other matter about the
24 fund. Do you envisage any substantial reduction, or
25 any reduction of any kind, of branch lines which might
26 be found to be marginal and which are supported in
27 part out of this branch line maintenance trackage
28 fund? What incentive is there for anyone to reduce
29 trackage -- marginal trackage?

30 MR. STECHISHIN: For anyone?



1
2 Q. Yes, either for the railways or the
3 Board?

4 MR. STECHISHIN: Well, the government would
5 have an incentive because it would save them money, and
6 I think the railways would have.

7 Q. What is the incentive that the railways
8 have? Why should they not just go on being paid by
9 the federal government and applying the moneys from
10 this fund to a reduction in the non-competitive traffic
11 commodity rates thereby keeping the rate level at
12 a more erosion-proof plateau?

13 MR. STECHISHIN: I see more expenses under
14 branch lines than trackage.

15 Q. Indeed?

16 MR. STECHISHIN: It would eliminate those
17 expenses if they were to eliminate the branch lines,
18 would it not?

19 Q. There would be some gain, would there
20 not, in using those moneys to keep the non-competitive
21 rate level down?

22 MR. STECHISHIN: Would you say that again,
23 please?

24 Q. Would there be some gain to the
25 railways in using the branch line trackage maintenance
26 fund moneys to keep the non-competitive rate level down?

27 MR. STECHISHIN: There certainly would be
28 some incentive, but would there not be more in
29 eliminating the complete cost of the branch line
30 rather than just the trackage on the branch line?



1
2 Q. It could be. This becomes a matter of
3 judgment.

4 MR. STECHISHIN: I would think so.

5 Q. Mr. Stechishin; in your submission
6 at page 95, for instance, you are talking about rates
7 per car, and we have just discussed those a few minutes
8 ago in the American context with regard to fresh
9 fruits and vegetables. Would you go further and
10 suggest that trainload rates should be the practice
11 in Canada?

12 MR. STECHISHIN: I would prefer not to go
13 beyond the brief in that regard, Mr. Commissioner Mann.
14 I know that there is a distinction between the large and
15 the small shipper in the present rate structure, which
16 is condoned by Parliament, apparently, between l.c.l.
17 and class rates. Why there should be a distinction
18 there, and not between carload and trainload rates, I
19 do not know, but I know that there is. I am not
20 prepared to express an opinion one way or the other on
21 that subject at this time.

22 Q. At page 97, dealing with incentive rates,
23 you say that a more widespread use of the incentive
24 practice might lead eventually to the virtual elimina-
25 tion of the Canadian Freight Classification. Would
26 that enable us to get rid of the class rates as we know
27 them today?

28 MR. STECHISHIN: I think the railways have
29 put in incentive rates which have virtually eliminated
30 the use of the Classification. The one exception might



1
2 be in l.c.l., and that is being taken care of in
3 some respects by the new merchandising service.

4 Q. But if we get rid of the Canadian
5 Freight Classification altogether can we get rid of
6 the present concept of class rates which are ---

7 MR. STECHISHIN: Yes, I think so. I do
8 not see how you can have class rates without a
9 classification.

10 Q. That is what I wanted. In your discus-
11 sion on demurrage -- and that has been such a conten-
12 tious subject for so long -- could you tell the Commission
13 when the present free time was put in, and when was it
14 determinable -- the length of the free time that we have
15 today?

16 MR. STECHISHIN: The 48 hours, do you mean?

17 Q. Yes, the 48 hours' free time. How far
18 back does it go? Does it go back to about the beginning
19 of the century -- would that be it?

20 MR. STECHISHIN: I think it is about 1904,
21 but I could be mistaken about that. I am not positive.

22 Q. Do you have any current statistics of
23 the percentage of cars released within free time?

24 MR. STECHISHIN: I do not have them with me,
25 but I have seen them.

26 Q. The Canadian Car Demurrage Bureau used
27 to put them out, but I have not seen them lately.

28 MR. STECHISHIN: I believe they still do, but
29 they are not public.

30 Q. We can get the information from the



1
2 Canadian Car Demurrage Bureau, can we?

3 MR. STECHISHIN: I suggest you ask the
4 railways.

5 MR. MAURO: Have you seen these figures,
6 Mr. Stechishin?

7 MR. STECHISHIN: Yes, I have.

8 MR. MAURO: Can you make them available?

9 MR. STECHISHIN: I know I have seen them,
10 but whether we have them or not I do not know.

11 MR. MAURO: If we have them we will let the
12 Commission have them.

13 COMMISSIONER MANN: Q. The last question
14 I have on the brief relates to a discussion of transit,
15 and I wonder whether you could enumerate for us the
16 number of transit privileges that exist today -- the
17 types of transit privileges?

18 MR. STECHISHIN: I find it rather difficult
19 to answer that question without reference to books.

20 Q. Let me suggest some to you, and you can
21 tell me whether I am right.

22 MR. STECHISHIN: I am sure you are.

23 Q. For instance, the dressing of rough
24 lumber in transit?

25 MR. STECHISHIN: Yes, there is dressing and
26 drying of lumber.

27 Q. Sorting and cleaning and bagging of
28 certain commodities?

29 MR. STECHISHIN: Yes.

30 Q. Stop-off in transit?



1
2 MR. STECHISHIN: Well, they are all stop-
3 off in transit.

4 Q. I mean, storage?

5 MR. STECHISHIN: Storage, yes.

6 Q. And, of course, milling in transit?

7 MR. STECHISHIN: Milling is probably the
8 principal one in Canada.

9 Q. I think we discussed this rate briefly
10 before, but do you advocate that there should be manu-
11 facture in transit?

12 MR. STECHISHIN: Yes.

13 Q. So that if I am a receiver and I bring
14 in raw material from an intermediate point and change
15 the nature of that raw material into a finished product
16 I should get the balance of the full rate?

17 MR. STECHISHIN: I would say that the
18 transit privilege in that particular case would depend
19 to a very substantial degree on how easily you can
20 trace the movement of the inbound raw material to
21 the movement of the outbound finished product. If
22 the outbound finished product is a combination of
23 inbound raw materials -- for instance, you might bring
24 in a lot of coal to manufacture steel. In that case
25 you do not ship the coal out because it is lost in the
26 process. A lot depends on the ability of the railways
27 to police that type of transiting.

28 Q. Along the lines, for instance, of the
29 conversion of grain into a finished product?

30 MR. STECHISHIN: Grain?



1
2 Q. The conversion of grain into the
3 finished product, namely, flour, which is milling in
4 transit?

5 MR. STECHISHIN: That is the principal
6 milling in transit that is available.

7 Q. In your view, if similar circumstances
8 existed with regard to manufactures generally they
9 should also have transit privileges?

10 MR. STECHISHIN: I think they could be
11 expanded considerably. I think they might be built
12 up gradually in order to gain experience in having
13 transit privileges with respect to different types of
14 processing. I can say there would be no difficulty
15 with raw steel being fabricated into steel forms.

16 Q. Is that allowed in Canada?

17 MR. STECHISHIN: No, but it is in the
18 United States.

19 Q. You can bend and drill steel?

20 MR. STECHISHIN: You can add on gusset
21 plates, etc.

22 Q. I said that was the last question I
23 had on the brief, but may I ask you one more? We
24 have heard quite a bit about equalization of freight
25 rates during our hearings. In your opinion -- and
26 you have had a lot of experience with it -- has
27 equalization lived up to the hopes of its proponents?

28 MR. STECHISHIN: You say that we have
29 heard a lot about it. I first want to preface my
30 remarks with the statement that you have not heard very



1
2 much about it in the Manitoba brief. In direct answer
3 to your question I would have to say that the general
4 impression I get back in Manitoba, at least, is that
5 it has not lived up to what they expected from it.

6 Q. Would it be possible for you to indicate
7 to us why?

8 MR. STECHISHIN: I think I could -- the
9 principal reasons, anyway. I think the first disap-
10 pointment that we experienced in Manitoba on equaliza-
11 tion was the absence of the maritimes from that
12 equalization. The proposals which were advanced in
13 the discussion stages all included the weighting of
14 the maritime low rates with the western high rates as
15 a part of the reduction which we expected to get in
16 the west from equalization. The second disappointment
17 from Manitoba's point of view, I think, -- but not from
18 Alberta's point of view, I believe -- was the considera-
19 tion of the new east-west through rate scale which we
20 felt was not equalization since you are not taking two
21 different articles and making them one, but rather it
22 was the creation of a new rate scale, or the substitu-
23 tion of a new rate scale for an old scale. I think
24 the third principal point upon which equalization can
25 be said not to have lived up to expectations is the
26 tremendous growth of traffic now moving under agreed
27 charges.

28 Q. Under agreed charges?

29 MR. STECHISHIN: Yes, under the agreed
30 charges, which, of course, are exempt from equalization,



1
2 as are other commodity rates. They are occupying a
3 larger and larger share of the total traffic, and in
4 talking to shippers I find that the general feeling
5 is that any benefits that might have been achieved
6 under equalization cannot now be achieved because of
7 the incidence of the agreed charges.

8 COMMISSIONER MANN: Thank you very much,
9 Mr. Stechishin. That has been very helpful.

10 THE CHAIRMAN: Mr. Platt?

11
12 BY COMMISSIONER PLATT:

13 Q. I have just one question, Mr. Stechishin,
14 I do not think there is any Canadian data available --
15 or, at least, I have not seen it -- but from your
16 experience in United States costing perhaps you
17 could give me some help on this. When you get an
18 increase in costs due largely to labour and materials,
19 which I assume is the common reason for increased
20 costs, have you any idea of the relative effect on
21 terminal and line haul cost in trucking as compared
22 with terminal and line haul cost on the railways?

23 MR. STECHISHIN: The only figures I have
24 seen on that, Mr. Commissioner Platt, are, of course,
25 American figures, and the general consensus of thinking
26 of costing men is that the ratio of terminal to line
27 haul via truck is less than it is by rail. In other
28 words, if you have a rate of \$1 by truck it might be
29 30 cents terminal and 70 cents line haul, whereas by
30 rail it might be 50 cents terminal and 50 cents line



1
2 haul.

3 Q. Yes. Now, we get an increase in
4 materials and labour which has to be taken care of, and
5 suppose this increase in total is the same for truck
6 and for rail. What would happen to the 30/70 and
7 the 50/50?

8 MR. STECHISHIN: If you get the same
9 increase for both the truck and the rail operator?

10 Q. Yes.

11 MR. STECHISHIN: Under those circumstances,
12 of course, the truck terminal costs will increase less
13 than the rail terminal costs. However, I should add
14 this, that that relationship is changing more and more
15 with the congestion, especially in the larger cities.
16 At one time truck terminal costs included what the
17 trucker has to pay the filling station to take his
18 phone calls, but now he has to have his own building,
19 and he now has to have separate delivery trucks in
20 suburban areas because the large trucks are not
21 allowed in them. These are all terminal costs, and
22 very little in the way of line haul costs. On the
23 other hand, the savings that the railways are making
24 are on the line haul costs rather than the terminal
25 costs. I think these two factors would tend to bring
26 the railways and the trucks more and more in line,
27 terminal vis-a-vis line haul.

28 THE CHAIRMAN: We will take a break now.

29
30 ---Short recess.



1
2 THE CHAIRMAN: Order, please.

3 ---RE-EXAMINATION BY MR. MAURO:

4 Q. Mr. Chairman, most of the questions
5 that I have marked down over the period of cross-
6 examination to re-examine Mr. Stechishin have been,
7 I think, satisfactorily covered for the Commission.

8 There are one or two points that I
9 thought I might clarify through re-examination.
10 Firstly, this: in being questioned by Mr. Sinclair,
11 Mr. Stechishin, on page 16278 of the transcript,
12 Mr. Sinclair asked:

13 "Q. Do you think it is to the benefit
14 of the Canadian economy as a whole to
15 have the railways offset geographic
16 disadvantages of particular shippers?"

17 Now, Mr. Stechishin, is there anything
18 in the Manitoba proposal regarding long and short
19 haul cost that would compel the railway to offset
20 geographic disadvantages?

21 MR. STECHISHIN: No, there is not. As
22 a matter of fact, we suggest that the railways should
23 not be permitted to remove existing geographic
24 advantages.

25 MR. MAURO: Another point that my learned
26 friend brought up this morning, Mr. Chairman, was
27 concerning some of the figures that appeared in
28 our presentation, particularly the figure in paragraph
29 168 of \$2,433,530,000.00 over a six year period.
30 These were expenditures. My learned friend asked



1 Mr. Stechishin whether he was familiar with the
2 classification of accounts and whether or not that
3 figure represented capital outlays or expenses. I
4 have had the opportunity over the lunch hour to
5 discuss it with our accounting adviser. I am
6 advised that figure does not include any capital
7 items, but are the expenses that are chargeable
8 against the freight shipper.
9

10 COMMISSIONER ANSCOMB: Any capital
11 items at all?

12 MR. MAURO: No capital items. It includes
13 all items that are chargeable to the freight shipper
14 under the classification of accounts as expenses.

15 MR. STECHISHIN: I might mention,
16 Commissioner Anscomb ---

17 MR. SINCLAIR: Of course, with respect,
18 the brief says monies spent on modernization.

19 MR. MAURO: Well, I will read paragraph
20 168:

21 "The province of Manitoba feels
22 that it is most important that
23 expenditures totalling \$2,433,530,000.
24 over a six year period require close
25 analysis since, as previously stated,
26 under the present 'requirements formula' it
27 is the freight shipper who must bear
28 the burden of these expenditures."

29 And it is in that context that if there is any
30 misunderstanding, that is what I am clarifying now.



1
2 These are items that are properly chargeable under
3 our classifications of account as expenses. That
4 is the only point I desire to make.

5 MR. SINCLAIR: Are you saying that
6 notwithstanding what is stated here that these
7 are expenditures for maintenance and depreciation
8 in six years?

9 MR. MAURO: No. I am saying that these
10 over the six year period are items -- I do not
11 want to get into the terms, Commissioner Gobeil --
12 they are items that are properly chargeable under
13 our classifications of account as expenses which
14 are borne by the freight shipper.

15 COMMISSIONER ANSCOMB: There is not
16 a diesel charged in there?

17 MR. MAURO: No. Perhaps Mr. Stechishin
18 could put it into the record.

19 MR. SINCLAIR: They are taken from
20 Canadian Pacific annual reports including maintenance
21 of way, maintenance of equipment, transportation --
22 all these items.

23 MR. STECHISHIN: These are the the items --
24 two billion four hundred odd million dollars which
25 appears on page 80 is the sum of the annual figures
26 shown in paragraph 167 near the bottom of page 79.
27 And these are the items which appear on page 25
28 of the annual report 1958 and earlier years under
29 the headings: railway expenses, road maintenance,
30 equipment maintenance, traffic, transportation,



1
2 railway lines, miscellaneous, railway operations and
3 general.

4 The sum of those accounts as shown in
5 the Canadian Pacific annual report are the figures
6 reproduced on page 79. The sum of the sums on page
7 79 are shown on page 80 as \$2,433,000,000. for the
8 period 1953-1958.

9 MR. SINCLAIR: For the C.P.R. alone?

10 MR. STECHISHIN: The C.P.R. alone, yes.

11 MR. SINCLAIR: But they have not anything
12 to do with modernization?

13 MR. MAURO: Mr. Stechishin has put it
14 on the record.

15 Q. The other point I would like to cover
16 with you, Mr. Stechishin, because it was touched
17 upon by Mr. Commissioner Gobeil and Mr. Commissioner
18 Anscomb, and one question by my learned friend, Mr.
19 Cooper, is this matter of the branch line subsidy
20 fund. I feel perhaps some clarification is in order.

21 Mr. Stechishin, what is the present
22 method of rate increase applications in Canada?

23 MR. STECHISHIN: The ~~Canadian~~ railways
24 when they feel their revenues are inadequate for
25 proper operation of the companies will apply to the
26 Board of Transport Commissioners with a request that
27 they be permitted to increase their rates.

28 Q. To what?

29 MR. STECHISHIN: Well, they ask them to
30 increase the permissive level of earnings so that the



1 railways can improve their net revenue position.

2 Q. This is what is referred to as the
3 revenues formula?

4 MR. STECHISHIN: The Board has devised
5 a revenues formula and has indicated that they will
6 allow the railways to earn up to the amount stipulated
7 in the railways formula.

8 COMMISSIONER ANSCOMB: Expressed in
9 dollars?

10 MR. STECHISHIN: Expressed in absolute
11 dollars; not as a percentage.

12 MR. MAURO: Q. Then, what sources of
13 revenue have the railways in order to achieve this
14 permissible level of earnings?

15 MR. STECHISHIN: Almost exclusively the
16 freight payments. The payments for freight.

17 Q. Now, we have got this situation that
18 under our present law the C.P.R., as the yardstick
19 road, has been given a permissive level of earnings
20 in dollars and cents?

21 MR. STECHISHIN: That is right.

22 Q. And when it feels it needs more
23 money to get this return on its investment and
24 everything else permitted, it goes before the Board
25 of Transport Commissioners and requests an increase
26 in its permissive level?

27 MR. STECHISHIN: That is correct.

28 Q. And that the major -- almost the sole
29 source of revenue, particularly net revenue, is the
30



1
2 freight shipper?

3 MR. STECHISHIN: That is correct.

4 Q. What is the present procedure as
5 to branch line abandonment in Canada?

6 MR. STECHISHIN: Under branch line
7 abandonments, the railways will go to the Board,
8 under section 168 of the Railway Act, which reads:

9 "The company may abandon the
10 operation of any line of railway with
11 the approval of the Board, and no company
12 shall abandon the operation of any
13 line of railway without such approval."

14 I might just add at this moment, Mr.
15 Commissioner Anscomb made mention this morning about
16 whether that branch line is in the national interest
17 or in the local interest. I think the mere fact
18 that Parliament saw fit to put this clause in the
19 Railway Act subject to the jurisdiction of a body
20 of Parliament, the Board of Transport Commissioners,
21 would indicate that Parliament, at least, felt that
22 any branch line was a matter of national interest,
23 since they did not leave it to the discretion of
24 the local people, but they said it must be approved
25 by a parliamentary creature, as it were.

26 COMMISSIONER ANSCOMB: If I agreed with
27 you, I would then have to say that Parliament makes
28 a lot of mistakes.

29 MR. MAURO: We are hoping some of them
30 will be changed as a result of the report of this



1
2 Commission.

3 Q. Section 168 of the Act governs
4 the present procedure, Mr. Stechishin?

5 MR. STECHISHIN: That is correct.

6 Q. And the railways come before the
7 Board of Transport Commissioners and they say, "We
8 want to abandon this particular line", and I assume
9 that they show that they are losing money on the
10 line?

11 MR. STECHISHIN: Yes, the railways
12 present figures showing the revenues received from
13 the line, the cost of operating the line, and in
14 the case of an abandonment the deficit from the
15 operations of that line.

16 Q. And is this all the Board of
17 Transport Commissioners considers -- whether or not
18 there is a net loss?

19 MR. STECHISHIN: No, the Board of
20 Transport Commissioners, in addition to looking
21 at the financial figures submitted by the railway,
22 then consider whether in the opinion of the Board
23 it is in the national interest or not in the national
24 interest to continue the operation of that line.

25 Q. I recall the phrase commonly used
26 "public convenience and necessity". Is that a
27 correct phrase?

28 MR. STECHISHIN: That is, yes, yes.

29 COMMISSIONER MANN: In connection with
30 that, the Board's phrase is:



1
2 "That the convenience of the
3 public outweighs the loss to the
4 railway."

5 MR. MAURO: Q. Therefore, Mr. Stechishin,
6 the railways come before the Board of Transport
7 Commissioners; they prove financial loss; the Board
8 says, "Yes, you have proven financial loss, but we
9 feel that public convenience and the necessity
10 outweighs this financial loss". What then happens?

11 MR. STECHISHIN: The railways are forced
12 to recover that financial loss from, generally
13 speaking, the freight shippers.

14 Q. Yes. So, under the present system,
15 if the Board says: "That is most unfortunate, that
16 you are losing the money, but our public convenience
17 and necessity requires that the line be maintained."
18 The railway has to place this additional burden on
19 the general freight shipper?

20 MR. STECHISHIN: That is correct.

21 Q. What would be the procedure under
22 the Manitoba proposal?

23 MR. STECHISHIN: In so far as the
24 railways are concerned, it would be identical. The
25 railways would come forward when they ascertained
26 that they are not receiving sufficient revenue on
27 a branch line. They would apply to the Board,
28 presumably, with exactly the same sets of figures
29 as they have prior to this method being adopted, and
30 then the Board would consider, audit the figures first,



1
2 and if it were established the line was a deficit
3 operation the Board would consider whether or not
4 it was in the national interest, and if the Board
5 concluded it was not in the national interest the
6 abandonment would be proceeded with. On the
7 other hand, if they concluded that it was in the
8 national interest to abandon the line the Board
9 would order a payment from the fund to the railways
10 and the burden of that branch line would then not
11 be passed on to other shippers.

12 Q. Now, how would this -- you have
13 told us that there would be absolutely no difference
14 except that the burden that is presently transferred
15 to the freight shipper would now become a burden
16 of the federal treasury under our scheme --

17 MR. STECHISHIN: That is right.

18 Q. -- would you explain to the Commission
19 what the effect of this scheme would be; first, on
20 the railways, and on the freight shippers?

21 MR. STECHISHIN: The effect of the
22 scheme, I think, on the railways would be pretty
23 well the same as that proposed by the railways in
24 the suggestion that there be a subsidy on Crow
25 rate.

26 If I might just read from paragraph 154:

27 "As indicated above, the prevailing
28 concept governing rail management is that
29 losses resulting from deficit operations
30 are met by the revenues of profitable



1
2 operations. The Canadian Pacific
3 Railway and the Canadian National Railways
4 now propose a material departure from this
5 prevailing concept. In relation to the
6 carriage of grain under statutory and
7 related rates, they suggest as follows:

8 Firstly: That the carriage of grain
9 under statutory and related rates has
10 resulted in a very large deficit to the
11 railways.

12 Secondly: That they cannot recoup these
13 deficits from other freight traffic.

14 Thirdly: That the losses should not be
15 met by increased charges to the farmers
16 but should be subsidized by the Federal
17 Treasury."

18 What we are suggesting here is that if
19 we substitute branch lines for grain under statutory
20 rates you come up with the same logical sequence
21 of that.

22 Q. In other words, this appears in the
23 Manitoba proposal under paragraph B of the terms
24 of reference: obligations and limitations?

25 MR. STECHISHIN: That is right, sir.

26 Q. And what the province of Manitoba
27 has said here is that the railways have mentioned
28 Crow's Nest grain rates as an obligation and
29 limitation which results in a burden?

30 MR. STECHISHIN: That is right.



1
2 Q. And that the railways have said,
3 "Do not charge anything more to the grain shipper;
4 give us our proper rates, but let the federal
5 treasury pay the difference." And what Manitoba
6 is suggesting is that the same logic be applied to
7 any burden that might result from branch line
8 deficits and from passenger deficits; that they
9 be removed as a burden from the freight shipper?

10 MR. STECHISHIN: That is correct.

11 COMMISSIONER ANSCOMB: Mr. Mauro,
12 is it the same logic in actual fact? In the first
13 case, the railways say the so-called captive traffic
14 is not paying enough, and they agree with you on
15 that, presumably, but they say to the federal
16 treasury, "You pay us the difference and we will be
17 happy."

18 Here, you say you have got the same
19 logic, and yet if you are going to make them continue
20 to run this line that is unprofitable and get the
21 federal government to pay it, you are then going
22 to give what the federal government pays them to
23 the shipper?

24 MR. MAURO: Oh, well ---

25 COMMISSIONER ANSCOMB: Where does the
26 railway get any benefit out of that?

27 MR. MAURO: Let us look at their grain
28 scale.

29 COMMISSIONER ANSCOMB: I did not want
30 to mix the two. You mixed the two.



1
2 MR. MAURO: I think it is important
3 in the context. This is the context: the railways
4 say, "We think we need 100 per cent increase in
5 rates on grain". And, so they do come before the
6 Board of Transport Commissioners in the normal
7 fashion and they proved their case: 100 per cent
8 increase in rates on grain gives them a fair return.
9 It would be the same as if the Board then said, "We
10 grant you the 100 per cent increase, Mr. Railway,
11 but you cannot raise your rates to the farmers. We
12 will give you the difference from the federal
13 treasury." So that the railways are not getting
14 any benefit, so-called. They are exactly handing
15 the bill to a different person; handing the bill,
16 instead of to the grain shipper, to the federal
17 treasury.

18 COMMISSIONER ANSCOMB: Except in this
19 case, Mr. Mauro, they are not getting anything from
20 the grain shipper; they are going to get it, if they
21 get it at all, from the federal treasury. So, they
22 are going to get something. In this case of yours,
23 they are going to be told to run a railway. They
24 will get something for so doing, but they will have
25 to give it to my friend sitting on my right here.
26
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30



1
2 MR. MAURO: Well, exactly what they are
3 doing in the grain cases. They are not going to do
4 anything more than what they are doing. They say
5 this is a 100 per cent increase and our bill is \$100
6 million. They say it is a burden, we cannot any
7 longer maintain the traffic because we cannot recover
8 our losses on other traffic.

9 COMMISSIONER GOBEIL: I am all right on
10 that, but when you start that you say you want to make
11 it clearer to me. It is not clear yet, as far as I
12 am concerned. It seems to me that your solution is
13 subtle. I don't see how a track maintenance fund
14 comes in to saddle a deficit. You say if they want
15 a subsidy for grain, okay, but let us have it also for
16 passenger and branch lines. You say \$2,500 per mile
17 of track. I presume it is not just a figure out of
18 the air, it is based on something, and then you say
19 3,000 miles and then at the same time you come up
20 with \$7 million. But supposing the railways prove
21 that their deficit on the branch line is \$30 million.
22 Are you going to have two subsidies?

23 MR. MAURO: I think as far as our figures
24 are concerned, Commissioner Gobeil, we had no figures
25 that we could go on at all. We took out a figure
26 per mile of track that appeared in the railways'
27 cost studies, and our Transport Commission tried to
28 come up with a figure which approximated the non-
29 compensatory branch line mileage in Canada. The
30 railways might come forward and say, as a matter of



1
2 fact, our figure should be qualified, it should be
3 5000 or 1500 miles. But regardless of that, if this
4 Commission were to adopt the proposal the principle
5 applies: they would ascertain the number of miles of
6 deficit or non-compensatory branch line operation in
7 Canada, evaluate a mileage trackage fund and make this
8 available in the manner in which we propose it.

9 COMMISSIONER GOBEIL: Supposing it was
10 proved that the deficit of branch lines is \$30 million
11 and there are 3000 miles of branch line deficit, you
12 would simply divide those two figures and then you
13 would say your deficit fund is \$10,000?

14 MR. MAURO: If, in fact, the cost of main-
15 tenance of branch lines was \$10,000 per mile. But
16 remember that we are distinguishing here between opera-
17 ting and maintenance costs. The bridge subsidy did
18 not compensate the railways for operating costs over
19 the bridge but simply for the mileage factor, the
20 trackage. We don't suggest this is a perfect scheme.
21 In some of the proposals we will be hearing from one
22 of the railways, some of their suggestions are interesting,
23 and we put this forward as a possible solution to this
24 very large deficit which we contend is largely being
25 maintained in the public interest. It will not
26 improve their net position. Commissioner Mann said
27 it makes them more erosion proof because there is this
28 requirements formula. If they are receiving these
29 revenues on the non-competitive commodity and class
30 rated traffic it requires less of an increase and



1
2 therefore less possibility of erosion in their general
3 traffic.

4 THE CHAIRMAN: The trucks would have the
5 same objection to this as they would to the bridge?

6 MR. MAURO: Yes. The only basis upon
7 which Manitoba could suggest this would be if we found
8 a branch line deficit was in the public interest. This
9 should not be a method of continuing inefficient trans-
10 portation, and we leave it to the Board of Transport
11 Commissioners or some other duly authorized body to
12 determine whether or not the branch lines are in the
13 public interest. If so, we say that the treasury
14 should bear it.

15 MR. COOPER: To clear this matter up as to
16 the point Commissioner Anscomb was asking, it seems to
17 me that in the Crow's Nest subsidy proposal the net
18 position of the railways is improved at the end of
19 the year. In the proposal which is now being put
20 forward for a branch line trackage maintenance fund,
21 the net revenue position of the railways is not im-
22 proved at the end of the year, and that is the funda-
23 mental difference which I suggest Commissioner
24 Anscomb was pointing out between the two schemes.

25 MR. MAURO: Well, that is a matter for
26 argument. I don't think I should do it in re-examina-
27 tion. Suffice to say, in my opinion the railways do
28 not pay for any of this. It is being met out of the
29 requirements formula.

30 Q. Then there was one final point my



1
2 friend Mr. Cooper put to you, Mr. Stechishin -- it may
3 have been touched on by Commissioner Mann -- that this
4 proposal would tend to retard abandonment of branch
5 lines.

6 MR. STECHISHIN: No, Mr. Mauro, I do not
7 think it would. I think if anything it would probably
8 increase the number of applications on the part of the
9 railways for abandonment rather than retard it, because
10 under the present system the railways have an even
11 chance of either having an application accepted or
12 rejected, and if it is rejected the railways would have
13 to pay the additional expenditure. Under the proposal
14 we make the railways would be relieved of the expendi-
15 ture or insist on the continuance of the branch line.

16 MR. SINCLAIR: On the question put to the
17 witness on law and his answer was 168 would not have
18 been put into the statute, that is the one that requires
19 the Board to approve an abandonment of the branch line
20 if that was not thought to be in the national interest,
21 of course, as this is federal railway and within the
22 exclusive jurisdiction of the Dominion, even although
23 it was of local interest, the only place it could be
24 put would be in the federal statute.

25 MR. MAURO: That is a matter of argument.

26 That concludes the examination of Mr. Stechishin.

27 Were you asking me a question, Commissioner
28 Anscomb?

29 COMMISSIONER ANSCOMB: No. I simply wanted
30 to get cantankerous, because it is very difficult. We



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2 have sat around here for eighteen months and I have
3 heard consistently about this national interest and
4 public interest. Somebody has got to say that it is
5 true. I do not think the Board of Transport
6 Commissioners is any more competent to settle it
7 than you or I. But take the isolated case of 100
8 miles of line out in what I call wilderness and
9 what you call unproductive land. How can anybody say,
10 when the railway comes along and says that train has
11 been running there for years and they can't get
12 anybody to use it, it must remain in the national
13 interest?

14 MR. MAURO: Because, frankly, I think that
15 a person can very sincerely say that because there are
16 areas in this country that would never be anything
17 but wilderness except for the first pioneering step
18 of someone saying we are going to put in a railway
19 line, we are going to open this up.

20 COMMISSIONER ANSCOMB: I agree with that,
21 but that has already been done.

22 MR. MAURO: But it is not sufficient to
23 take a balance sheet and say that while a line was put
24 in to open up this country, and a lot of people put
25 their life savings in to develop a particular area,
26 and a change of pattern develops -- that by the
27 simple filing of a document which says we are not
28 making enough money to provide the cost of this
29 service, ipso facto this line should be abandoned,
30 because I say there is a social and public problem



1
2 that enters in there. I don't suggest that in each
3 and every case should come to the conclusion, well,
4 somebody says they want a rail line, we will oppose
5 abandonment, but I do suggest there should be an
6 appellate tribunal to which a group of people can
7 go and say there is a public convenience, and if they
8 prove it they have a right to the service.

9 THE CHAIRMAN: Well, that is a matter of
10 argument.

11 MR. MAURO: Thank you, Commissioner Anscomb.

12 THE CHAIRMAN: Thank you, Mr. Mauro, and
13 thank you, Mr. Stechishin. You have been very helpful.

14 We will adjourn now until the 11th of
15 October in this room.

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18 ---Adjournment.
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ROYAL COMMISSION

OK

TRANSPORTATION

HIGHLIGHTS

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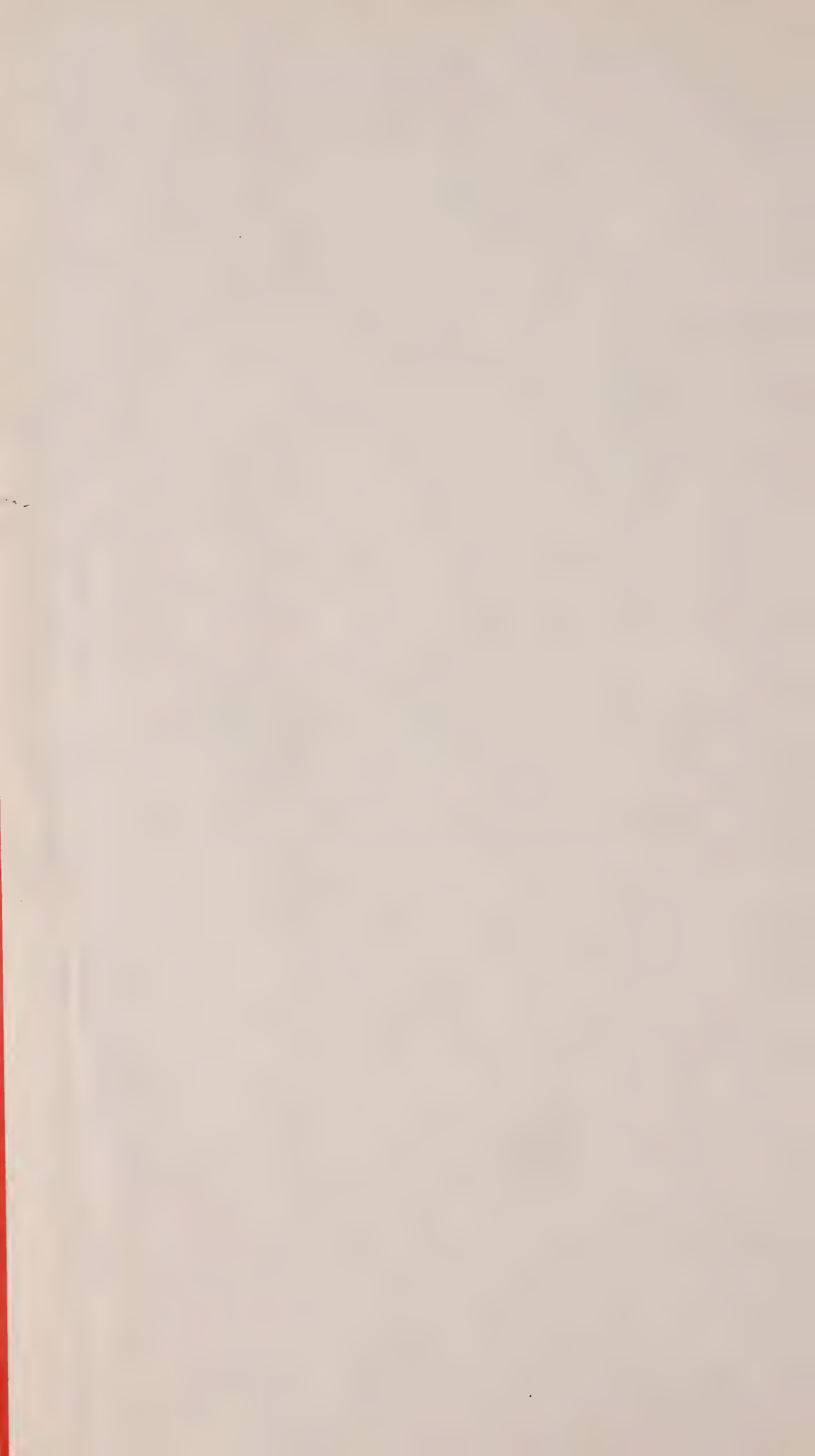
E X H I B I T S

81 A Statements comparing agreed charge freight
rates from Eastern Canada to Vancouver with
rates to Calgary and Edmonton on the same
commodities as of September 28, 1960.

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149A Agreed charges in effect as of October 1st,
1960.

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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners
Offices, Ottawa, Ontario, on
the 11th day of October, 1960.

COMMISSION

Mr. M. A. MacPherson, Q.C.	Chairman
Mr. H. Anscomb	Member
Mr. A. H. Balch	Member
Mr. R. Gobeil	Member
Mr. H. A. Mann	Member
Mr. A. Platt	Member

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Mr. A. G. Cooper, Q.C.	
Mr. G. S. Gunning	
Mr. H. B. Scott	Adviser
Mr. F. W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary



Ottawa, Ontario,
Tuesday,
October 11, 1960.

--- On commencing at 10:00 a.m.

THE CHAIRMAN: Order, please.

MR. SINCLAIR: Mr. Chairman, before my friend, Mr. Frawley, introduces the evidence that he has proposed to call on behalf of the province of Alberta, I would like to refer the commission to volume 96, being the transcript for the day September 29, 1960, at page 16377. This had to do, sir, with the discussion that had taken place by yourself, Mr. Chairman, and other members of the commission, with counsel for the province of Alberta and Manitoba concerning the date for the filing of the precis of testimony of Mr. Banks.

Mr. Mauro -- I only need to read this -- closed the matter up in this way, and I am quoting Mr. Mauro from page 16377 of the transcript, being volume 96.

Mr. Mauro said:

"I simply want to say, Mr. Chairman, that I feel an obligation to this commission to get a definite date. I will, in concert with Mr. Frawley, this afternoon phone Mr. Banks and I will obtain a date from Mr. Banks, and I wish I could go further, Commissioner Anscomb and Commissioner Gobeil. I feel you have a right to know that date, and this afternoon



1
2
3 there will be a date fixed"

4 Now, I had assumed, Mr. Chairman, in view of
5 that having taken place on the 29th of September, that,
6 as counsel for Canadian Pacific, either my friends Mr.
7 Frawley or Mr. Mauro or the commission, through its
8 secretary, would have informed me as to the date that
9 counsel said they would give you.

10 Unfortunately, that likely had been over-
11 looked, and I only bring this to your attention at this
12 time because the sooner I know the date the more progress
13 will be made, and I wonder if the commission could in-
14 form me.

15 THE CHAIRMAN: The date was fixed, October
16 15th.

17 MR. SINCLAIR: Thank you very much.

18 Now, Mr. Chairman, the other point that
19 wish to speak to has reference to that date, now that
20 it has been fixed, which I now understand is the same
21 date for both Mr. Banks and the material of Mr.
22 Saunders.

23 THE CHAIRMAN: Yes.

24 MR. SINCLAIR: And that has to do with these:
25 At volume 95 of the transcript -- that is the trans-
26 cript of September 27 and 28, 1960 -- at page 16267
27 you, sir, were discussing the order of the commission
28 in relation to the dates for hearing and you said,
29 after referring to the evidence to be forthcoming
30 from Mr. Banks and Mr. Saunders:



"I implore counsel to try with the experts to somehow shorten the matter of this costing technique".

I have given note to that, sir, during the last week's adjournment, and I have turned my mind to that request of yours, sir. Of course, I was mindful of the commission's order of June last, and I am at a complete loss to know what has happened. I would ask the commission if they would be so kind, to enlighten me in regard to it because I cannot turn my mind, I do not think, and come to a conclusion with respect to the indication that you made to us on September 28 concerning shortening, and counsel getting together with the experts, until the order of the commission of the tenth of June is carried out.

I am reading from volume 80 of the transcript, and it goes on for a number of pages, starting at page 14070. At this time, I may summarize it possibly more quickly by pointing out that the commission there directed that a cost conference be held where counsel would not be present but the experts of the grain handling organizations and of the western provinces would be present, as would the costing consultants of the railways. And this was to be under the chairmanship of Dr. Armstrong of the commission staff, and there was to be minutes kept. All these sub-missions would be discussed and minutes were to be kept in which there would be recorded the areas or points of agreement and the points of disagreement, and the cross-examination would be limited to the areas and points of



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3 disagreement arising from this cost conference.

4 Now, that was suggested for July, and I do say
5 to the commission this, that the cost consultants of the
6 railways have been available since June, with the exception
7 of two weeks when they took a vacation. They have waited
8 and I have waited to receive some instructions from the
9 commission as to the dates. Now, of course, those dates
10 could not be given until the material was filed. But now
11 that the dates are fixed; that is, October 15, would the
12 commission please consider and let me know the date of this
13 conference so that it can get forward and then I can know
14 what we are going to do with the cross examination. I
15 make this as a suggestion to you, sir, and I have put it
16 all together on that basis.

17 THE CHAIRMAN: We will advise you later.

18 Meantime, Mr. Cumming has a statement to make.

19 MR. CUMMING: Mr. Chairman, the direction of
20 this commission to which a friend, Mr. Sinclair, had
21 reference was, as you will all recall, made in a very
22 genuine attempt on the part of the commission to facilitate
23 the handling of this rather difficult question of costing.
24 It was with that in mind that this conference was suggested.

25 Of course, as everybody knows, as we have seen
26 all around us, particularly in the last few weeks, confer-
27 -ences are something that do not take place unless the
28 conferees are willing, and that there is some prospect of
29 progress being made.

30 However, in view of this morning's developments



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3 and if the commission thinks it would be of any assis-
4 tance at all, I would be quite pleased to meet with counsel
5 for all these parties with the view to having a
6 report for this commission as to what at this stage can
7 practicably be done in connection with this costing matter.

8 THE CHAIRMAN: We will appreciate that.

9 MR. CUMMING: I would suggest this afternoon.
10 I do not know where Mr. Mauro is --

11 MR. SINCLAIR: Quite frankly, sir, what my sug-
12 gestion was -- it does not involve meeting of counsel be-
13 cause all I am saying now is the material is here; will the
14 commission and its staff merely fix a date for this confer-
15 ence at which counsel were not going to be even present.

16 THE CHAIRMAN: We will fix a date.

17 MR. FRAWLEY: Before a date is fixed, Mr. Mauro
18 is concerned on this, as well as myself, and Mr. MacKinnon
19 is concerned also. I rather thought Mr. Cumming's idea
20 was a good one, to just meet and find out what change
21 there has been since July. I know Dr. Borts is now in
22 England, for instance. As I say is other people are
23 concerned. I do not think any dates should be fixed with-
24 out consultation with Mr. MacKinnon and Mr. Mauro. I
25 thought Mr. Mauro would be here. As for Mr. MacKinnon's
26 movements, I am not so well informed.

27 THE CHAIRMAN: Our efforts have been more or
28 less abortive in this regard. We will make further
29 efforts and advise all parties and fix the dates.

30 MR. FRAWLEY: Mr. Chairman, before calling Dr.



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3 Harries I have two statements to file. The Commission
4 may recall that quite some time ago I filed a statement
5 which became exhibit 81. That statement was called
6 "Statement comparing agreed charge for freight rates from
7 Eastern Canada to Vancouver with rates to Calgary and
8 Edmonton on the same commodities as of December 29, 1959".

9 I now would like to file as exhibit 81-A, I sug-
10 gest, a statement which bears the same caption but shows
11 the rate comparison as of September 20, 1960. I have
12 given Mr. LaFrance some copies, and if it is agreeable
13 that number will be 81-A.

14 THE CHAIRMAN: You are filing it?

15 MR. FRAWLEY: Yes, I am filing that, sir, and
16 I have given out some copies.

17 EXHIBIT 81-A. Statements comparing agreed
18 charge freight rates from Eastern Canada to Vancouver with
19 rates to Calgary and Edmonton on the same commodities as
20 of September 28, 1960.

21 MR. FRAWLEY: Then, some time ago I filed as
22 exhibit 149 a statement showing all agreed charges in
23 effect. It was quite a voluminous statement, running to
24 61 pages, and that statement was captioned "Agreed
25 charges in effect as of May 24, 1960". I now would like
26 to file an addendum.

27 MR. SINCLAIR: Pardon me, Mr. Frawley, is this
28 exhibit 81-A -- does this affect this statement?

29 MR. FRAWLEY: It may affect that table in two
30 or three instances, and that is one reason why I am filing



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2
3 it, Mr. Sinclair. That is quite right.

4 As I was saying, I also filed as exhibit 149 a
5 very comprehensive statement showing all agreed charges
6 except those that had been dropped out through cancellation.
7 I would now like to file an addendum to that statement 149,
8 which addendum includes all agreed charges up to October 1,
9 1960. That, I would request, will become exhibit 149-A so
10 that they can be together appropriately.

11 EXHIBIT 149-A: Agreed charges in effect as of
12 October 1, 1960.

13 MR. FRAWLEY: I now call Dr. Harries.

14 HU HARRIES, called

15 THE CHAIRMAN: Now, I understand from counsel
16 that Mr. Harries is giving two phases of the evidence?

17 MR. FRAWLEY: Yes, sir, with the Commission's
18 permission. Unless the Commission has some objection, I
19 would propose that Dr. Harries put in both of his two
20 briefs at one time in chief and then be subject to cross-
21 examination on both of them.

22 THE CHAIRMAN: That seems reasonable.

23 MR. FRAWLEY: Thank you very much.

24 The first brief that Dr. Harries is responsible
25 for is the one called "Long and Short Haul Discrimination",
26 and the second brief he is responsible for is "Transportation
27 and the Economy of Alberta with particular reference to
28 Freight Rate Relationship".

29 MR. SINCLAIR: They are not both on the same
30 subject?



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2
3 MR. FRAWLEY: No, no, that is true, but they
4 form, in our view, one comprehensive submission.

5
6 DIRECT EXAMINATION BY MR. FRAWLEY:

7 Q. Dr. Harries, you live in Edmonton?

8 A. Yes, sir.

9 Q. And I will read into the record and then
10 have you agree with it what might be called your qualifications
11 for coming here today to give evidence.

12 You obtained a degree of B.Sc. from the University
13 of Alberta in 1945; a degree of Masters of Science from
14 Iowa State University in 1947; a degree of M.A. from the
15 University of Toronto in 1948; and a Ph.D. from the Iowa State
16 University in 1953. Your present position is that you are
17 Dean of the Faculty of Commerce, the University of Alberta,
18 and you carry on the practice of an economic consultant,
19 being president and manager of Hu Harries and Associates
20 Ltd., Edmonton.

21 As to your appearances before Commissions and
22 boards, you have appeared before the Gas & Oil Conservation
23 Board of Alberta (11 times); you have appeared before the
24 Alberta Board of Public Utility Commissioners six times;
25 you have appeared before the Royal Commission on Energy;
26 before the Board of Transport Commissioners on many
27 occasions; before the Royal Commission on Transportation
28 in 1950; before the Royal Commission on Agreed Charges;
29 and before other specialized Commissions and boards.

30 You are consultant to, or have been, the Royal



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3 Commission on Canada's Economic Prospects; the Royal
4 Commission on Great Slave Railway; the Borneo Co. Ltd.,
5 London, England, and the Royal Commission on South
6 Saskatchewan River, and other commercial concerns. Is that
7 correct, Dr. Harries?

8 A. Yes.

9 Q. Dr. Harries, you have been asked by me to
10 prepare for submission to this commission a statement on
11 long and short haul discrimination, particularly as it is
12 practiced in the ~~trans~~-continental freight rate structure?

13 A. That is correct, sir.

14 Q. And do you have that brief with you?

15 A. Yes, sir.

16 Q. Will you now please, Dr. Harries, proceed to
17 put it into the record.

18 A. In this brief no attempt has been made to deal
19 at length with the many general aspects of the problem of
20 long and short haul discrimination which have been
21 elaborated in previous submissions by the Province. This
22 brief is in the nature of a summary statement and deals
23 specifically with an analysis of the conclusions and
24 recommendations of the Royal Commission on Agreed Charges
25 that reviewed the matter of long and short haul
26 discrimination six years ago. Since that time many changes
27 have taken place in the railway freight rate structure.
28 This brief, benefitting from six years of experience,
29 reviews the matter and makes certain policy recommendations.
30



I. The History of Long and Short Haul Discrimination
in Transcontinental Rates.

In 1949 the Province of Alberta made an extensive analysis of long and short haul discrimination in its various forms, and with particular reference to transcontinental traffic, from the inception of railway operations in Canada up to the year 1948. This information, together with statements from Alberta shippers and other supporting evidence, was presented to the Royal Commission on Transportation (1951). The Commission analysed the evidence and in its report, commencing at page 96 and following through to page 100, the results of that analysis are summarized. The Commission then proceeded to make the following recommendations:

(pages 101 and 102)

"On the main issue, it seems reasonable to conclude that when the railways give the trader and consumer at the Pacific coast the benefit of fast railway service at rates that are very little more than ocean rates and thus provide them with two alternate services at almost the same price, the consumers in Alberta and other intermediate provinces are entitled to share in an equitable degree in the beneficial condition thus created by the railways.

"The influence of any transcontinental rate from the east to the British Columbia coast should be carried back in the rates to the



1
2 intermediate provinces (including points in
3 British Columbia east of the coast) on a basis
4 not more than one-third greater than the trans-
5 continental rate to the sea coast. This is a
6 logical and simple solution to the matter, one
7 that is readily calculated and applied; it
8 recognizes the influence on Alberta of inter-
9 coastal competition, but at the same time does
10 not lead to the extreme conclusion that Alberta
11 should have sea coast rates. It should also
12 have a restraining influence on the railways
13 in lowering rates to meet sea coast competition
14 because they will know that they can only obtain
15 rates at intermediate points not more than
16 one-third above the rate to the sea coast. If
17 they choose to cut their rates in two to the
18 Pacific coast, they may charge only one-third
19 more at the intermediate points, not 100 per
20 cent more, as they now do in the case of canned
21 goods and flannelette blankets to Calgary
22 and Edmonton.

23 "The effect of this proposal is indicated
24 by the following examples of rates on carload
25 lots which add a third to the table previously
26 given:
27
28
29
30



ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Harries, dir
(Frawley)

16436

<u>Item</u>		<u>Present all-rail rate to Calgary or Ed.</u>	<u>Present trans- continen- tal rate to Van.</u>	<u>Rate to Calgary or Edmonton re- sulting from proposal</u>
		<u>per 100 pounds</u>		
Canned Goods		*V \$2.65	\$1.40	\$1.87
Structural Steel	*C	*S 2.07 $\frac{1}{4}$	1.32	1.78
	*E	*S 2.36 $\frac{1}{4}$		
Cast Iron Pipe	*C	*V 1.73	1.00	1.33
	*E	*V 1.85		
Cooking Oils		2.88	1.65	2.20
Flannelette Blankets	*A	6.58	3.31	4.41

Rates in the first and second columns are as
of December 31, 1950.

*A Any quantity, carload or less.

*C To Calgary

*E To Edmonton

*S From Sault Ste. Marie, Ontario only

*V Combination on Vancouver.

The provinces east of Alberta will likewise benefit
from the proposal which is outlined above, since
the maximum rate to all points between the
point of origin and the Pacific coast area will be
subjected to the ceiling of 133-1/3 per cent of the
transcontinental rate.

"The same principle should apply to eastbound
competitive transcontinental rates.

This is all that can usefully be recommended
in regard to this much debated question of trans-
continental rates and their relation to rates
at intermediate points.



1
2 "The Railway Act should be amended to pro-
3 vide that when competitive transcontinental tariffs
4 are published by the railways, such tariffs
5 shall contain a provision that the rates to
6 or from intermediate territory shall not exceed
7 the transcontinental rates by more than one-
8 third.

9 "The legislation here recommended would
10 bring about a change in the manner in which
11 transcontinental rates have heretofore been
12 treated by the Board. It has so far been held
13 that the interests of shippers and consignees at
14 intermediate points did not touch the principle
15 of transcontinental rates: In re General Freight
16 Rates Investigation, 33 C.R.C. page 127."

17 Parliament subsequently amended the Railway
18 Act by enacting Section 337 which provided that:

19 "(2) Tariffs naming a competitive toll
20 for any transcontinental freight traffic
21 shall provide that

22 (a) the toll for freight traffic
23 having its destination at a point in
24 intermediate territory, and

25 (i) having its origin at the same
26 point in eastern or western
27 territory,

28 (ii) being of the same description,
29 and,

30 (iii) carried in the same direction



1
2 and under the same conditions and
3 arrangements as to weight and
4 otherwise as the transcontinental
5 freight traffic for which the com-
6 petitive toll is named, shall not
7 exceed by more than one-third the
8 competitive toll so named to the
9 point of destination in eastern or
10 western territory, as the case may
11 be, nearest to the point of
12 destination in intermediate terri-
13 tory; and

14 (b) the toll for freight traffic having
15 its origin at a point in intermediate
16 territory, and

17 (i) having its destination at
18 the same point in eastern or
19 western territory,

20 (ii) being of the same description,
21 and,

22 (iii) carried in the same direction
23 and under the same conditions
24 and arrangements as to weight
25 and otherwise,

26 as the transcontinental freight traffic
27 for which the competitive toll is
28 named, shall not exceed by more than
29 one-third the competitive toll so named
30 between such point of destination and



1
2 the point of origin in eastern or western
3 territory, as the case may be, nearest to the
4 point of origin in intermediate territory."

5 This amendment to the Railway Act
6 effectively limited the long and short haul discrimination
7 on transcontinental hauls for a period of about two
8 years. The railways, restive under this particular
9 piece of legislation, instituted anew practice in March,
10 1953. On that date they entered into an Agreed Charge
11 with the Canada Iron Foundries Limited and the National
12 Iron Corporation Limited, for the shipment of cast iron
13 pipe and fittings from Toronto and Three Rivers to
14 Prince Rupert, Vancouver, and Watson Island, B.C.
15 The Agreed Charge, which was made under the Transport
16 Act and not under the Railway Act, violated the One and
17 One-Third Rule. When the Agreed Charge came before
18 the Board of Transport Commissioners for approval it
19 was opposed by the Government of Alberta and the
20 Edmonton Chamber of Commerce. The Board approved the
21 agreed charge and rejected the view that it should be
22 made subject to the One and One-Third Rule. The Province
23 of Alberta then asked the Government of Canada to amend
24 the Transport Act so that the One and One-Third Rule would
25 apply to all agreed charges to the west coast. The
26 Government of Canada did not accept the suggestion of
27 Alberta and appointed a Royal Commission to inquire into
28 the application and effects of agreed charges. The
29 order in council appointing the Commission had the
30 effect of putting under review the whole subject of the



1
2 agreed charge method of rate making. When the
3 report of the Royal Commission on Agreed Charges was
4 issued it was apparent that the question which
5 apparently had prompted the Government to appoint the
6 Commission, namely the application of the One and One-
7 Third Rule to transcontinental traffic, was only a minor
8 issue. On this issue the Commission made a finding that
9 the One and One-Third Rule could not properly be
10 applied to transcontinental agreed charges.

11 Since the Report of the Royal Commission on
12 Agreed Charges was tabled virtually no transcontinental
13 competitive commodity rates have been issued by the
14 railways, if such rates would be subject to the One and
15 One-Third Rule. Transcontinental traffic to
16 Vancouver moving at rates lower than 75 per cent of
17 the rates to intermediate territories, for all practical
18 purposes, has been on an agreed charge contract and has
19 no impact upon the rates to intermediate territory.
20 The freight rate situation today as far as the inter-
21 mediate territory is concerned is summarized in Table 1.
22 It must be noted that the number and importance of the
23 commodities now subject to long and short haul discrimina-
24 tion is much less than was the case ten years ago.
25 The ones that remain are still important and the
26 principle must still receive consideration.
27
28
29
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Table 1.

16441

AGREED CHARGE FREIGHT RATES FROM EASTERN CANADA
TO VANCOUVER AND RATES TO CALGARY AND EDMONTON ON
THE SAME COMMODITIES AS OF September 28, 1960. @

Commodity	Rate to Van- couver	Rate to Cal- gary	Differ- ence in favour of Van- couver	Rate to Edmo- nton	Differ- ence in favour of Van- couver
Plastics, boards or sheets	208	298	90	292	84
Batteries, electric and other miscellaneous commodities	284	411	127	404	120
Brass, Bronze and Copper articles	345	411	66	404	59
Calcium carbide	159	285	126	263	104
Alcohol	215	360	145	195	80
Motor fuel, anti-knock compound	267	383	116	380	113
Copper Articles	185	411	226	404	219
Electrodes, carbon	220	365	145	375	155
Crucible	300	332	32	332	32
Glass, window, common	256	305	49	305	49
Cast Iron and Steel articles	129	230	101	240	111
Cast Iron Pipe, iron & steel	170	314	144	325	155
Cast Iron or Sheet, iron & steel	120	208	88	217	97
Wire rope, rope and strand	140	285	145	275	135
Planks, or sheets, sawdust or ground wood	178	269	91	264	86
Oil and paint materials	250	275	25	275	25

@ All rates in cents per hundred pounds.



II. The Problem of Long and Short Haul Discrimination.

Long and short haul discrimination is a special type of place discrimination. It is composed of three elements:

- (a) a higher absolute rate for shorter than for longer distances,
- (b) shipments of like kinds of freight, and,
- (c) shipments over the same route in the same direction, the shorter haul being included within the longer.

The nature of the discrimination may be illustrated by the following example:

A _____ C _____ B

If a railroad charges a rate of \$1.00 per hundred pounds for transporting a certain commodity from A to B and \$1.25 for carrying it from A to C, the carrier is practising the type of discrimination to which we refer. A similar discrimination results if the rate from C to A is in excess of the rate from B to A.

The usual explanation of long and short haul discrimination is to be found in assumptions about the nature of railroad expenses. The railroad rates at the intermediate point C may be reasonable, but if competition makes it impossible to carry traffic from A to B at a comparable rate the railway will tend to lower its charge to B and take the movement. The railways will contend that as long as the through rate to B covers the additional expenses it occasions, the railways and all the shippers are better off.



Variations in the regional incidence of competition are the leading cause of long and short haul discrimination. This competition must be more important at a more distant locality than at an intermediate locality, and, indeed, be so effective at the more distant point that the railroad will reduce the level of its rates to the more distant point. Long and short haul discrimination is therefore the result of the presence of competition at certain places and its relative absence at others.

The first party at the intermediate point who will be adversely affected by long and short haul discrimination is the distributor. It is quite obvious from Table 1, for example, that the distributor of wire, rope or ~~str~~and, who is located in Edmonton will not be able to effectively compete with the distributor located in Vancouver at points west of Edmonton, such as Edson and Jasper. He will obviously not be able to compete in many parts of the Peace River country nor indeed will the Calgary or Edmonton distributor be able to compete at many points on the north-south line between Edmonton and Calgary. Long and short haul discrimination, therefore, reduces the marketing area of distributors located at the intermediate point. If long and short haul discrimination is very severe on a large number of products, it is probable that there will be no distributing industry located at intermediate points.

Long and short haul discrimination can have



1
2 very important effects upon the location of processing and
3 manufacturing industry in intermediate territory. One
4 must examine both sides of the argument because there
5 are opposite effects. In the first case high freight
6 rates exert a customs tariff effect and tend to keep
7 goods out of an area thus creating an opportunity for
8 local manufacture where the raw materials and the
9 skills necessary for that manufacture are available.
10 This localized industry, seeking a domestic market,
11 can often thrive as a consequence of the relatively
12 high freight rates which involve the area incidentally
13 in long and short haul discrimination. Indeed, if
14 the railway argument for creating long and short haul
15 discrimination is accepted, long and short haul discrimina-
16 tion discourages this kind of industry because it results
17 in a lower general level of rates at intermediate lo-
18 cations.

19 In the second case industry which must bring
20 its raw material or partially processed materials from
21 outside the area and which must sell all or a part of
22 its production outside the area, is adversely affected by
23 long and short haul discrimination. This kind of
24 industry will be discouraged by long and short haul
25 discrimination from locating at an intermediate point.
26 In particular, this kind of industry will be very sen-
27 sitive to the continual change that marks the rate
28 structure of an area subject to long and short haul
29 discrimination. In these circumstances, even a raw
30 material processing industry may fail to develop at an



1
2 intermediate point because of long and short haul dis-
3 crimination although the raw materials are readily avail-
4 able at an economic price.

5 I would like to make this point that one of
6 the fundamental things in connection with industrial
7 location is some reasonable certainty of the continuity
8 of particular rate situations, not in absolute terms
9 but in relative terms. In other words, if an area
10 like Alberta is subject to long and short haul dis-
11 crimination and is not protected from that discrimination
12 by statute then the fact that today there may be little
13 of it is no assurance that tomorrow there will continue
14 to be just a little of it. Consequently manufacturers
15 rather than taking a chance on the return to the situation
16 we have twenty-five years ago will not locate there. We
17 think this is an important point.

18 The consumer in intermediate territory pays
19 more for goods and services when the supply cost of these
20 goods and services is influenced by long and short
21 haul discrimination. Here again, the degree of discrim-
22 ination will have an important effect upon the extent
23 to which the consumer suffers a detriment.

24 Historical analysis of the situation in the
25 United States and, indeed, in Western Canada creates a
26 strong presumption that long and short haul discrimination
27 is a detriment to economic development and one of the main
28 beneficiaries of the removal of discrimination is the
29 transportation industry itself. Long and short haul
30 discrimination can only be justified, even on theoretical



1
2 grounds, as a short term expedient. The long range
3 benefits of an equitable rate structure -- which must be
4 a rate structure virtually lacking long and short haul
5 discrimination -- has a favourable impact on all parts
6 of the community. Aside from the equity involved, the
7 allocative efficiency of the economy is greatly improved
8 with a sound rate structure.

9 MR. SINCLAIR: If Mr. Frawley does not mind
10 I would like to ask a question of the witness. When
11 you use the phrase "equitable freight rate structure"
12 it is synonymous with "sound freight rate structure"?

13 MR. FRAWLEY: Well, I do not mind the
14 interruption. I am sure Mr. Sinclair is interrupting
15 to be helpful and some people might object to interrup-
16 tions in their examination in chief. I do not object
17 at all unless Mr. Sinclair is going to enter into an
18 extensive cross-examination which would delay us.
19 Go ahead and ask the witness because that is what he
20 is here for and we might as well have it now as later.

21 THE CHAIRMAN: What do you say?

22 THE WITNESS: If "equitable" and "sound"
23 are the same thing?

24 MR. SINCLAIR: All I asked is when you use
25 the phrase "equitable freight rate structure" and
26 then the phrase "sound freight rate structure" are they
27 synonymous?

28 THE WITNESS: An equitable freight rate
29 structure has regard to the proportion of the total bur-
30 den that is borne by different people. I think that



1
2 is the key thing. A "sound freight rate structure"
3 may be something more than an equitable one because it
4 looks to the impact of the freight rate structure.
5 I think sound freight rate structure is a somewhat
6 broader concept than an equitable one. An equitable
7 one, I think, looks to the interest of the parties
8 participating at the moment where "sound" involves
9 the resource allocation, the impact of government.

10 THE CHAIRMAN: A matter of degree?

11 THE WITNESS: Yes, sir. "Equitable" is
12 included in "sound" within my use of the terms.
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3 THE WITNESS:

4 A. Yes, sir; "equitable" is included within
5 "sound", in my use of the term.

6 MR. FRAWLEY: ~~Semantic~~ is a science all by
7 itself and I hope we don't get too deeply into it.

8 THE WITNESS:

9
10 THE IMPACT OF LONG AND SHORT HAUL
11 DISCRIMINATION ON ALBERTA.

12 The history of long and short haul discrimination
13 in Alberta indicates that there have been successive
14 improvements in the position of the consumer, the
15 distributor and the manufacturer. These improvements have
16 resulted from the effects of increased competition by
17 alternate forms of transport at intermediate points, from
18 changes in the location of manufacturing, and processing,
19 and from changes in the patterns of distribution. The
20 nature of the problems encountered by Alberta business and
21 residents and the general history of long and short haul
22 discrimination may be briefly reviewed.

23 In 1938 the Edmonton Chamber of Commerce submitted
24 the following evidence to the Rowell-Sirois Commission
25 regarding the cost of long and short haul discrimination
26 to the Alberta consumer. They said in part at page 6 of
27 their supplementary brief:

28 "Consider the cost of canned tomatoes,
29 corn and peas --- If the (Vancouver
30 rate) applied to Alberta shipments,
tomatoes would be reduced about 3¢



1
2
3 per tin and corn and peas about 2¢
4 per tin.

5 "An ordinary galvanized stock tank
6 that sells to the farmer at about
7 \$12.50 would be reduced \$1.00 if
8 Alberta farmers had the same freight
9 rate as B.C. farmers. The same
10 proportionate reductions would be made
11 on stove pipes and dozens of other
12 steel products.

13 Do you realize that 26% of the
14 cost of eave troughs and conductor
15 pipe is transportation cost? If we
16 had the Vancouver rate the transportation
17 cost would be only 11%."

18 The Chamber brief also referred to the relative
19 position of certain business interests in this province.
20 The hardware distributor was faced with the following:

21 "Barbed wire can be delivered in
22 Edson, Alberta, via Vancouver for a total
23 transportation cost of Montreal-to-
24 Vancouver 75¢ plus L.C.L. Vancouver-
25 to-Edson of \$1.13 or a total of \$1.88.
26 If distributed from Edmonton the rates
27 are Montreal-to-Edmonton \$1.98 plus
28 L.C.L., Edmonton-to-Edson of 35¢ or
29 a total of \$2.33. This is an excess
30 charge if distributed from Edmonton



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2
3 of 35¢ per cwt., and the distance
4 the railways haul this merchandise
5 is 1410 miles less. This item can
6 be shipped to Wainwright, Alberta,
7 135 miles east of Edmonton for 20
8 ¢ per cwt. less if distributed from
9 Vancouver rather than from Edmonton
10 This is an excess of 1580 miles
11"

12 There were a number of other commodities which
13 reacted to the rates in a similar fashion. In each case
14 the difficulty and even the absolute impossibility, of
15 the Alberta wholesaler doing business in territory
16 adjacent to his own location was apparent.

17 In 1947 the situation with regard to certain
18 transcontinental competitive commodity rates had altered
19 but the fundamental disability of these rates remained.
20 The government of Alberta said in the Brief presented to
21 the Board of Transport Commissioners in the 30 percent
22 case, (Vo. 769 - Transcript of Evidence, at page 11473 etc.)

23 "Schedule 12 indicates the disad-
24 vantage to Alberta of existing trans-
25 continental rates and in particular
26 demonstrates the disabilities suffered
27 by our distributing centres in areas
28 logically tributary to them. A comparison
29 of the cost of distributing goods shipped
30 from Eastern Canada to certain British



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3 Columbia interior points from Calgary
4 and Vancouver respectively indicates
5 that although the distance via Vancouver
6 to the points given ranges from 24 to 34
7 per cent greater, the transcontinental
8 rates enable Vancouver distributors to
9 reach interior points that are nearer
10 to Calgary at rates substantially below
11 those that must be paid by Calgary
12 distributors. The proposed increase
13 would further restrict the markets of
14 Alberta distributors in this area by
15 increasing the differentials in favour
16 of Vancouver.

17 Schedule 26 describes what is
18 probably the extreme case of the spread
19 between the low competitive rate from
20 Eastern Canada to the Pacific Coast and
21 the comparable rate to Alberta points.
22 Canned goods can be shipped from Toronto
23 to Vancouver at the transcontinental
24 commodity rate and reshipped back to
25 Edmonton, at a combined rate of \$1.94
26 per cwt., compared to the direct
27 Toronto-Edmonton quoted rate of \$1.98
28 per cwt. The rate to Vancouver is less
29 than 50 percent of the Edmonton rate
30 to begin with and this difference



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3 between the two rates is sufficient
4 to extend the back-haul territory
5 from Vancouver to Edmonton, a distance
6 of 765 miles. The total additional
7 haul which the railways would be
8 obliged to perform at no extra charge, if
9 the shipment were rebilled at Vancouver,
10 is 1,530 miles, most of which is through
11 Mountain territory where operating costs
12 are alleged to require the application
13 of the higher rates of the Mountain
14 Differential."

15 At the Edmonton and Calgary hearings of the
16 Royal Commission on Transportation (1951) representative
17 distributors appeared under the auspices of the Boards of
18 Trade to present evidence in connection with long and short
19 haul discrimination on certain items of particular concern
20 to them.

21 Mr. H. V. Lewis, a director and traffic manager
22 of Louis Petrie Ltd., a Calgary wholesale grocer, said:
23 (page 1494 of the Transcript).

24 "Just about our sorest point is
25 the advantage enjoyed by Vancouver in
26 the transcontinental rate. Rates from
27 Eastern Canada to Alberta have as their
28 maximum the rate to Vancouver plus the
29 back-haul and some of them are very close
30 or even in certain circumstances have to



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3 be reduced. We feel that it is grossly
4 unfair that we should have to pay the
5 cost of a double haul across the
6 mountains on our purchases in the East.
7 South of the border the situation is
8 different and our purchases in Eastern
9 states move at a transcontinental rate
10 plus local from the border as shown
11 above. We think the rates should be
12 altered to no more than the rate from
13 comparable U. S. points."

14 Mr. B. Bowlen, Secretary of the Alberta
15 Co-operative Union, said in his Brief. (pages 1499 and
16 1500 of the Transcript).

17 "As wholesalers, interested in the
18 distribution of food products canned in
19 Eastern Canada, we wish to draw your
20 attention to the problems created by the
21 so-called Panama Canal Competitive rates
22 to Vancouver. Suppose we wished to order
23 a carload of canned tomatoes from Aylmer,
24 Ontario. We would be assessed a charge
25 of \$2.40 per cwt. or a total charge of
26 \$1,440.00. A Vancouver wholesaler could
27 get a similar shipment at a cost of \$1.37
28 per cwt. or a total charge of \$822.00.
29 In other words, a Vancouver wholesaler
30 pays approximately half the freight



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2 charges that we do and yet receives
3 service for an additional 750 miles.
4 This is only one part of the problem
5 however. With these low coast rates
6 in existence, a Vancouver wholesaler
7 could actually distribute that carload
8 of tomatoes all the way back into the
9 western part of Alberta. You can
10 appreciate that absolutely and
11 relatively, therefore, we are placed
12 in a most disadvantageous position."

13 Mr. C.W. Carry, appearing in Edmonton on
14 behalf of C.W. Carry Ltd. said: (page 2061 of the
15 Transcript).

16 "Our rate on structural steel from
17 Sault Ste. Marie, Ontario, to Edmonton
18 is a 6th class rate of \$2.17, while the
19 same product travels right past our doors
20 into Vancouver for \$1.74 per cwt. (C.F.A.
21 1-H, Supp. 78).

22 It is true that the minimum carload
23 weight to Vancouver is 50,000 lbs., while
24 the minimum to Edmonton is only 36,000 lbs.
25 However, we would be quite willing to
26 have our minimum increased to the same
27 weight as Vancouver's in return for the
28 same consideration as they receive on
29 rates."
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2 Mr. C.V. Cairns, Manager of Blowey-Henry
3 Limited, Edmonton, wholesalers of furniture and house
4 furnishings, had the following to say: (page 2078
5 of the Transcript).

6 "We feel we are at a decided
7 disadvantage to Vancouver in bringing
8 in many of these products. Permit me
9 to give you an example of what I mean.
10 The C.L. rate on linoleum from Montreal
11 to Edmonton is \$2.40. The same product,
12 travelling from Montreal to Vancouver,
13 enjoys a commodity rate of \$2.24. This
14 is sixteen cents less than the rate to
15 Edmonton for a haul which is approximately
16 750 miles longer."

17 Mr. H.B. Armstrong, Vice-President
18 of Western Supplies Limited, an Edmonton firm engaged
19 in the distribution of pipe, had this to say: (page
20 2094 of the Transcript).

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Transcript).

"Permit me to give you an example of just one inequality which affects our business and which we think should be adjusted:-

Pipe, 4 inches and under in diameter, imported from Welland, Ontario, to Edmonton: On a carload of 35 tons our freight cost is \$1,680. This same carload of pipe will travel from Welland to Vancouver for only \$924. In other words, we are called upon to pay \$756 more freight on every car of pipe than Vancouver pays. We submit that this is an absurd situation.

The Railways haul the car a much greater distance and get just over one-half of the revenue."

Mr. D. L. Dworkin appeared on behalf of D. G. Latta Ltd., Edmonton, wholesalers of steel products, and said in part: (pages 2105 and 2106 of the Transcript)

"We import steel into northern Alberta from Hamilton, Ontario. Our charge per hundred pounds is \$2.17. This same steel travels from Hamilton to Vancouver on a commodity rate of \$1.74 per hundred pounds. This means that the railways haul this merchandise approximately 25 percent farther for just 80 per cent of the revenue."



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Mr. H. W. J. Maddison, Manager of MacDonalds Consolidated Limited, Edmonton, wholesale grocers engaged in business throughout Alberta, stated: (pages 2108 and 2109 of the Transcript)

"We wish to draw the attention of the Commission to the situation that presently applies in connection with the movement of certain grocery items which move from eastern Canada to western Canada. In general, lower rates have been applied to those shipments destined to Vancouver than apply to similar movements to Edmonton. Taking canned goods as an example, we find that the Vancouver distributors are permitted to import mixed carloads of these at a rate of \$1.37. On the other hand, the Alberta distributor is required to pay \$2.40 for the same merchandise.

While we realize there is a difference in the carload minimum weight to these points we would gladly accept Vancouver's higher minimum for the same treatment Vancouver receives on rates."

It is apparent from the statements of these Alberta businessmen that long-and-short haul discrimination had a measurable and deleterious effect upon their ability to service markets adjacent to their business location.



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Following the report of the Royal Commission on Transportation (1951) and the subsequent amendment of the Railway Act to give effect to the One and One-Third Rule, Alberta business which no longer suffered the detriment of this discrimination, enlarged its distributing and manufacturing activity.

With the Denial of the One and One-Third Rule by the use of Agreed Charges long and short haul discrimination once again became an issue to the Alberta businessman. Evidence to the Royal Commission on Agreed Charges indicated the extent to which long and short haul discrimination again restricted the opportunities of healthy business growth.

Since the report of the Royal Commission on Agreed Charges there has been a reduction in the number of long and short haul violations on transcontinental traffic as viewed from the standpoint of Alberta business. A comparison of Table 1 in this brief with tables of a like kind to be found in previous submissions of the Province of Alberta will confirm this fact. Such a condition may not continue and it is well to emphasize that statutory protection for Alberta does not exist.

IV. THE ROYAL COMMISSION ON AGREED CHARGES - AN ANALYSIS.

The Royal Commission on Agreed Charges established primarily as a consequence of representations made by the Government of Alberta, considered in some detail the problem of long and short haul discrimination. The general position



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3 of Alberta as outlined by the Honourable Gordon Taylor,
4 Minister of Highways, was summarized in the report of the
5 Commission commencing at page 38:

6 "1. That while Alberta had opposed
7 the transcontinental agreed charges before
8 the Board of Transport Commissioners, the
9 Board was unable to grant the relief
10 sought because of the opening words of
11 Section 32 of the Transport Act:

12 "Notwithstanding anything in the Railway
13 Act".

14 2. That the conflict between the
15 Railway Act and the Transport Act was both
16 unforeseen and unintended by the Royal
17 Commission on Transportation.

18 3. That it was inconceivable that
19 when the Royal Commission on Transportation
20 directed its proposed remedy be applied to
21 competitive transcontinental tariffs it meant
22 that the remedy would not apply to agreed
23 charges.

24 4. That it is the requirement that
25 Alberta must pay such disproportionately
26 higher rates than the West Coast which
27 constitutes a discrimination against
28 Alberta. This is the core of the Alberta
29 complaint.

30 5. That Alberta must have relief



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3 from any and all forms of rate-making
4 which require Alberta to pay substan-
5 tially higher rates than British
6 Columbia coast points."

7 The railways opposed the propositions advanced
8 by Alberta. Railway opposition was based upon alleged
9 actual or potential water competition from Eastern Canada
10 through the Panama Canal to Vancouver and the market
11 competition from foreign countries seeking to export to
12 Canada through the Port of Vancouver. The major point
13 made by the railways was their threat to cancel more than
14 50% of the Agreed Charges then in effect if such Agreed
15 Charges were made subject to the One and One-Third Rule.
16 They argued that the revenue loss occasioned by the
17 application of the Rule would more than offset the revenue
18 stemming from their ability to meet competition at
19 Vancouver.

20 The basic argument advanced by the railways
21 alleged that the ability of the railways to meet competition
22 at Vancouver was in fact an advantage to non-competitive
23 areas as Alberta inasmuch as the competitive rates or
24 Agreed Charges carrying the freight to Vancouver made a
25 contribution to railway expenses over and above the actual
26 costs of movement. To this extent, so it was argued, the
27 general burden of all shippers was reduced and consequently
28 the burden on Alberta shippers who were in a non-competitive
29 area was also reduced.

30 The submissions of Alberta with respect to the



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3 basic argument of the railways demonstrated that there were
4 some very necessary qualifications to the railway approach.
5 These can be summarized as follows:

6 (a) the railway argument is valid only
7 if the traffic which the competitive
8 rate seeks to obtain for the railway
9 can be handled without an outlay of
10 capital funds for increased equipment
11 or facilities. It presupposes the
12 existence of unused railway capacity.
13 This assumption is realistic only when
14 the competitive traffic is casual or
15 non-recurrent. So-called competitive
16 traffic which moves in volume over the
17 railway year in and year out must pay
18 much more than its out-of-pocket cost;
19 indeed it must pay almost its fully
20 distributed cost or the railway loses
21 money on such traffic.

22 (b) Another necessary assumption for
23 the validity of the railway proposition
24 is that reduced rates to the competitive
25 area will result in more net railway revenue
26 in the long run than would rate reductions
27 of the same amount to the non-competitive
28 intermediate territory. There is a good
29 statement of this point in Dr. A. W.
30 Currie's book "Economics of Canadian



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3 of Canadian Transportation". At
4 page 271 he says, and he is referring
5 to the argument we are discussing:
6 "The argument also tactly assumes
7 that reduced rates at competitive
8 points will get business for the
9 railway while equal reductions at
10 non-competitive points will not have
11 a similar buoyant effect on railway
12 revenues. More specifically, it is
13 assumed that reduced rates from
14 Montreal to Vancouver will mean more
15 in net railway revenues in the long
16 run than similar reductions to
17 Calgary or Edmonton. Yet the
18 stimulating effect which lower
19 freight rates on raw materials to
20 Alberta points would have on the
21 distributing, mining, and potential
22 industrial development of Alberta
23 might be just as helpful to railway
24 revenues as reductions to Vancouver.
25 The comparative lack of industry in
26 Alberta is partly the result of
27 freight tolls which are high compared
28 with those to Vancouver. Low freight
29 rates might help Calgary and Edmonton
30 just as they have assisted Vancouver.



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3 But there would be one important
4 difference: the railways must
5 share with steamship lines the
6 traffic to and from the industries
7 which low rates foster at the Coast;
8 they would have the increased
9 business in Alberta all to themselves;
10 In technical language, the economic
11 argument in favour of violating the
12 clause assumes a high elasticity of
13 demand at competitive points, and
14 a relatively or even a completely
15 inelastic demand curve at the non-
16 competitive ones."

17 (c) The railway argument in
18 justification of long and short haul
19 discrimination was put forward as if
20 it were unique to this particular
21 kind of discrimination or at least
22 as if it only applied to competitive
23 rates and not to any other rates.

24 This is an unsound proposition. As
25 a matter of fact, if that argument
26 were applied without restraint, the
27 Canadian freight rate structure
28 would be overburdened with a great
29 variety of discrimination. If this
30 revenue argument of the railways



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3 were to be an acceptable reason for
4 rate differences, then any type of
5 what is now regarded as unjust
6 discrimination would be justified
7 as completely as the railways seek
8 to justify their long and short haul
9 discrimination on transcontinental
10 traffic.

11 What we are saying is that if the only criterion
12 of what is a reasonable rate and what results in an
13 equitable rate structure is the revenue argument -- in
14 other words, anything that increases revenue is, in fact,
15 good -- then, you can justify personal discrimination
16 because, if as a shipper in Alberta I am willing to pay
17 more than let us say the maximum flat rate because I have
18 no other way of moving a particular commodity, then that is
19 going to give more net revenue to the railway, though
20 consequently they should be able to charge me exactly what
21 I am willing to pay. On the other hand, if my neighbour
22 is not willing to pay more but will be delighted to move
23 the same product to the same area by paying less, then,
24 you ought to be able to negotiate that rate. All I am
25 suggesting is that not that this revenue argument is
26 inapplicable, but simply must be used with caution and
27 cannot be the answer to a discrimination problem because
28 if it were accepted as the answer, then, in theory, at
29 least, the statute which prohibits personal discrimination
30 would be logically repealed.



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3 (d) The argument also makes the
4 assumption that all parties are
5 better off when the railways
6 "meet" competition. This
7 proposition necessarily involves
8 the following assumptions.

9 (1) That if the railway
10 reduces the rate to meet
11 competition the competing
12 carrier will not reduce
13 his rate.

14 (2) That the railway
15 traffic volume will increase
16 so that gross revenue from
17 the movement also increase.

18 Obviously, if these two assumptions
19 do not follow, then the proposition itself
20 fails. In that event, the railways and
21 the non-competitive shippers are worse off.
22 Experience shows that when the railway
23 reduces a rate ostensibly to "meet"
24 competition, unless the competition is
25 thereby destroyed, that is to say, unless
26 the rail rate is below the out-of-pocket
27 cost of the competition, the competing
28 carrier will usually meet the reduced
29 rail rate. He will meet the reduced
30 rate for exactly the same reason that



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3 the railway reduced its rate in the
4 first instance. Like the railway,
5 he will conclude that if he can get
6 or retain traffic volume at something
7 more than his out-of-pocket expenses,
8 he will be in a better position than
9 he would be if he gave up the traffic
10 entirely. It is obvious, therefore,
11 that the proposition is valid only
12 when the reduced rail rate destroys
13 rather than meets the competition.

14 The Royal Commission on Agreed Charges arrived
15 at the conclusion that the most "important point to be
16 considered in regard to ... (Alberta's proposals)... was
17 its practicability". The Commission went into some detail
18 on the matter of practicability and we quote from the
19 report at page 44:

20 "The establishment of an agreed
21 charge cannot be proclaimed by order
22 of the Board, but requires the
23 positive assent of the shipper. No
24 shipper can otherwise be legally bound
25 to ship any of his traffic by a
26 particular carrier. It is more likely
27 than in a non-competitive area the
28 initiative for obtaining agreed charges
29 would have to come from the consignee
30 (who of course can be deemed to be a



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3 a "shipper" under the Act) but who
4 at most could contract only for all his
5 incoming traffic. However, it cannot
6 be said with certainty that the
7 consignee would always have control of
8 the routing of his incoming traffic,
9 for this would depend upon the terms
10 of the sale and the consignor's
11 willingness to permit him to specify
12 the routing. Up to the present, agreed
13 charge arrangements seem to have
14 proceeded on the assumption that the
15 manufacturer or the seller would
16 ordinarily be the "shipper" referred
17 to in the Act. To attempt to negotiate
18 agreed charges on the basis of the
19 consignee being the shipper would seem
20 to offer many difficulties, and for
21 many commodities most susceptible to
22 competition, where shipments are
23 concentrated at one or two points of
24 origin and spread among a great number
25 of special contracts or any equally
26 large number of negotiating parties.
27 It is extremely doubtful whether
28 the railways could utilize the agreed
29 charges under such unfavourable
30 conditions.



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3 Therefore, it would seem
4 inescapable that the Alberta
5 proposal would resolve itself
6 into a situation as follows:
7 where agreed charges have been
8 negotiated on transcontinental
9 traffic the shippers (consignees)
10 in Alberta could apply for and
11 be entitled to receive agreed
12 charges to intermediate points
13 under the same essential
14 conditions but at rates no more
15 than one and one-third times the
16 rates on the agreed charge applying
17 on transcontinental traffic. This
18 would be the case whether or not
19 competition existed at the
20 intermediate point (and the meeting
21 of competition has always been a
22 compelling factor in the making of
23 agreed charges) and whether or not
24 the applicant was a party to the
25 transcontinental agreed charge.

26 The apparent practical difficulty of applying
27 the One and One-Third Rule to agreed charges was, in our
28 submission, substantially overemphasized by the Commission.
29 The Commission appeared to assume that in order to make
30 the One and One-Third Rule applicable to transcontinental



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3 agreed charges, there would be a large number of instances
4 in which many many shippers would be required (if they
5 were to obtain the advantage of the Rule) to apply to the
6 Board of Transport Commissioners. Such would not be the
7 case. The number of shippers concerned with commodities
8 now moving on transcontinental rates and violating the One
9 and One-Third Rule are relatively few in number. Indeed,
10 our analysis indicates that the number of receivers of this
11 kind of freight would not be substantially greater than the
12 number of shippers.

13 At page 45 of the Report the Commission noted four
14 changed conditions that, in the opinion of the Commission,
15 made the 1955 circumstances materially different from
16 circumstances which existed a few years prior. In the
17 opinion of the Commission these changed conditions were of
18 sufficient importance to, in effect, cause the Commission
19 to reverse the recommendations of the previous Commission.

20 The first changed condition mentioned by the
21 Commission was the growth of highway competition between
22 Eastern Canada and the Western provinces. There can be
23 little doubt that highway competition between 1950 and 1955
24 increased very materially. It must also be admitted that
25 there has been a continued increase in that competition
26 since 1955. This might be a reason for less agitation in
27 the intermediate area but it can hardly be considered a
28 justification for permitting long and short haul
29 discrimination.

30 The Commission indicated as a second proposition



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3 that the changes in the railway sources of revenues during
4 the previous few years and the increasing proportion of rail
5 traffic subject to competition made it virtually impossible
6 to adjust the railway rate structure in the way in which
7 the structure could be adjusted in previous years. This
8 different condition most certainly exists but its relevance
9 to the application of the One and One-Third Rule may be
10 questioned. If, in fact, "the freedom to adjust the
11 railway freight structure ... has all but disappeared",
12 surely one of the major policy tasks facing the railways
13 and the Board of Transport Commissioners must concern
14 itself with a protection to that ever diminishing portion
15 of rail traffic that is secure from competition. In other
16 words, if this second condition be a fact, and we think
17 it is, the application of the One and One-Third Rule
18 becomes more important - certainly not less important.

19 The third changed condition noted by the Royal
20 Commission concerned the Equalized Class Rate Scale. The
21 Commission observed that the new class rate scale would
22 have the effect of "reducing the difference between the
23 transcontinental rates and the class rates into intermediate
24 territory". Theoretically the Commission might be correct
25 but practically they are wrong because they neglected to
26 consider the influence of horizontal percentage increases
27 on the class rates. Such horizontal percentage increases
28 are not normally applied to the transcontinental rates on
29 Agreed Charges.

30 The Royal Commission also referred to the
equalization of commodity rate scales, and indicated that



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3 the equalization of these scales would "effect reductions
4 in those cases where intermediate territory rates are
5 higher than elsewhere". The Commission could not foresee
6 that the particular circumstances they envisaged would in
7 fact be seldom met and that in reality the equalization of
8 commodity rate scales would, if anything, increase the rates
9 of Alberta.

10 The Commission at page 45 of their report then
11 reached the following conclusions:

12 "the extension of the one and one-
13 third rule to agreed charges cannot be
14 recommended: firstly, because of the
15 difficulties surrounding the practical
16 application of such a measure; secondly,
17 because if it were found possible to
18 apply it to certain cases, it would on
19 the whole be unproductive of substantial
20 benefit to intermediate territory;
21 thirdly, because having regard to the
22 present unfavourable financial
23 condition of the railways and their
24 urgent need of relief, it would be
25 unwise, while granting them the
26 measures of freedom in the making of
27 agreed charges which I recommend to
28 create at the same time new
29 complications which might hamper
30 them considerably in the exercise



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3 of the agreed charge practice; and
4 fourthly, because the position of
5 intermediate territory is being
6 altered beneficially and in a
7 substantial manner as a result of
8 new competitive conditions of
9 transport and of the implementation
10 of the recommendations of the Royal
11 Commission on Transportation regarding
12 the adjustment of freight rates in the
13 Western Provinces."

14 The Commission expressed the view that there
15 would be no substantial benefit to intermediate territory,
16 if the ~~One~~ and One-Third Rule were applied to the Agreed
17 Charges. The immediate consequence of restriction of the
18 long and short haul discrimination might, in a strict
19 dollar and cent standpoint, be limited but this surely is
20 a most effective argument against the allegation of the
21 railways that the revenue loss resulting from the
22 application of the Rule would be highly significant. If
23 the benefit to intermediate territory is not substantial,
24 the possible loss that the railways so feared must have
25 been, in the opinion of the Commission, to an extent at
26 least, imaginary. The important point here is not the
27 magnitude of the gain or loss. It is the need for an
28 equitable and economic rate structure that must receive
29 attention. If, at the moment, there was no gain to the
30 intermediate territory, that territory would still be



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entitled to statutory protection against unregulated long and short haul discrimination. Money is not invested only on the basis of today's economic climate but most certainly on the basis of the future which, if we are to judge from past experience, cannot offer anything but concern in the matter of long and short haul violations in intermediate territory and especially in Alberta.

The third point raised by the Commission which related to "the present unfavourable financial condition of the railways and their urgent need of relief" does not, in our opinion, justify the maintenance of discrimination in the rate structure. The financial need of the railways, urgent and important as it has been for the past 10 years, must surely be a question of concern to the general rate structure and not to one specific segment. An equitable rate structure which fairly distributes the financial burden of transportation across the whole of Canada is a prime requisite to the financial success of the railways and to the economic health of Canada. Such an equitable rate structure cannot be denied simply because a change here and there will adversely affect railway revenues. The application of this kind of criteria, i.e. the financial one, would, if logically carried to its conclusion produce and compound rate inequities. This would be to the ultimate detriment of both the railways and the shippers.

The fourth point in the Commission report deals with the combined effect of new competitive conditions and



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3 the implementation of the recommendations of the Royal
4 Commission on Transportation (1951). The advantages
5 flowing from both these conditions cannot be denied.
6 Competition is now more severe in Western Canada than at
7 any time in the past and the Royal Commission recommendations
8 did benefit western Canada but, here again, the magnitude
9 of these advantages cannot be a reason for denying an
10 economic and equitable rate structure. The Royal
11 Commission on Transportation when it made its recommendations,
12 envisaged the restriction of long and short haul
13 discrimination together with the other recommendations.
14 To allege several years after the Report of the Royal
15 Commission that as a consequence of the implementation of
16 certain recommendations, others, and in our mind equally
17 important, recommendation should be ignored is to deny the
18 validity of the original report. We are certain that the
19 Royal Commission on Agreed Charges intended no such thing.

20 We think the recommendations were sound and we
21 do not see justification for altering some of them on what
22 appears to be the theory of "You May Not have got the whole
23 package, but you are better off because you got part of it."
24 That, we think, is the effect of the Agreed Charges Royal
25 Commission recommendation to not apply the One and One-
26 Third Rule to Agreed Charges.

27 The final point raised by the report of the
28 Royal Commission on Agreed Charges concerns the position
29 of the "distributors in Alberta cities as a result of the
30 discrepancies between rates from Eastern Canada to Alberta



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3 and to the Pacific Coast". The Commission made the
4 observation that it was not stated by Alberta that
5 consumers in these areas would be prejudicially affected
6 by this state of affairs, and the Commission do not see
7 how they could be. If it was not stated that consumers
8 would be prejudicially affected, it was certainly implied
9 many times throughout the hearing for it is obvious that
10 the ability of a distributor to compete in an area must be
11 related to the laid down cost of goods to his place of
12 business and the subsequent cost of re-shipping as
13 compared to the laid down cost of those same goods to his
14 competitors plus their cost of distribution. It follows
15 that if the Alberta distributor finds his territory
16 narrowed as a consequence of long and short haul
17 discrimination, the purchasers at the centre of his
18 marketing area are, in fact, paying more than they would
19 if his area was not restricted. This assumes that his
20 area is enlarged by a reduction of his rates and not by
21 an increase in his competitor's. It must, therefore, be
22 stated emphatically that the so-called distributor
23 argument against long and short haul discrimination can
24 properly be considered, in part at least, an argument on
25 behalf of the consumer.

26 The Commission narrowed the distributor argument
27 to such an extent that they were able to dispose of it.
28 They observed that they were "not convinced that the
29 location of the distributing trade is solely responsive
30 to the freight rate situation at any given time". They



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3 then proceeded to elaborate on this point which, our
4 reading of the record indicates, no witness had ever
5 suggested. Of more fundamental importance is the
6 suggestion of the Commission that the distributing trade
7 was in 1955 of less importance to the economy of Alberta
8 than it was as lately as 1950. This proposition as a
9 generality cannot be denied but it does not commend itself
10 as a reason for denying the application of restrictions
11 on long and short haul discrimination. The absolute
12 volume of distribution in Alberta has increased
13 tremendously during the past 10 years to the benefit of
14 everyone including the railways. At the same time the
15 healthy economic climate of Alberta has caused substantial
16 increases in those other parts of the economy mentioned by
17 the Commission. The net result is that distributing is
18 relatively less important but of sufficient size absolutely
19 to be of concern to both the business community of Alberta
20 and the railways.

21 One can hardly dismiss the distributive trades
22 of Alberta with the observation that decentralization has
23 proceeded to the point that the restriction of long and
24 short haul discrimination would fail to be of any advantage
25 to western consumers or western distributors. Evidence
26 to be given before this Commission will show that in the
27 case of the City of Spokane the rigid control of long and
28 short haul discrimination has had a very beneficial effect
29 on the distribution of goods in the area and has been
30 responsible in part for the significant economic strides



made by both the City and the area.

V. SUMMARY AND RECOMMENDATIONS

The foregoing review and analysis of long and short haul discrimination in Alberta suggests that, while circumstances changed in the past 10 years, they have not changed to such an extent that the recommendations of the Royal Commission on Transportation (1951) with respect to long and short haul discrimination can be set aside. Equity, the needs of intermediate territory, and an economic railway freight rate structure still demand restrictions upon long and short haul discrimination. It is our recommendation to this Commission that such restriction still be accomplished by the application of the One and One-Third Rule to all types of transcontinental competitive movements whether by Agreed Charges or competitive commodity rates.

THE CHAIRMAN: In effect, you are asking this Commission to reverse the second Turgeon Commission?

THE WITNESS: Yes; if I may say so, this is the rougher hand. The 1951 Commission gave the One and One-Third Rule; the Turgeon Commission took it away, for all practical purposes.

THE CHAIRMAN: And you want it restored?

THE WITNESS: We are asking it be restored to all competitive movements.



1
2 Q. Now, Dr. Harries, you also prepared
3 at my request a submission with respect to what I might
4 call maximum rate regulation, and you did prepare a
5 brief on that subject?

6 A. Yes, sir, I did.

7 Q. And this brief we have here to put in
8 called "Transportation and the Economy of Alberta with
9 Particular Reference to Freight Rate Relationship"?

10 A. Yes, sir.

11 Q. Will you please now proceed to put this
12 brief into evidence before the Commission?

13 A. Yes, sir.

14 This memorandum seeks to define the major
15 elements of the present transportation situation from
16 the standpoint of Alberta. Particular emphasis will
17 be placed upon the position of various economic groups
18 within the economy as their interest is affected by
19 current transportation rate policies. The historical
20 aspects of rate regulation and policy will be referred
21 to without explanatory notes as there exists a vast
22 fund of readily accessible information on this topic.
23 Where appropriate, specific rate items will be dis-
24 cussed but only to illustrate a principle or a
25 practice that should, in our opinion receive the atten-
26 tion of this Commission.

27 1. Introduction.

28 The provision of transportation services and
29 the user costs of such services, have been fundamental
30 economic factors in the growth and development of the



1
2 Province of Alberta. The history of Alberta's con-
3 cern about transportation now covers a period of more than
4 50 years. In every investigation, inquiry, hearing, and
5 major discussion, that has taken place during those
6 50 years, Alberta -- through the Government and through
7 the voice of various organizations -- has taken a
8 prominent part. The assumption of this role by Alberta
9 stems directly from her vital concern with transpor-
10 tation.

11 During the past 50 years many significant
12 changes have taken place in transportation. This Royal
13 Commission has received much evidence all of which sub-
14 stantiates in whole, or in part, this assertion. This
15 memorandum will not once again review these changes;
16 its purpose is to outline the effects of the changing
17 conditions of transportation upon the various parts of the
18 economy of Alberta and in particular to emphasize what
19 seem to be reasonable criteria to guide future
20 transportation policy, in light of these changing
21 conditions.

22 II. The Economy of Alberta.

23 In 1958, Calgary Power Limited published
24 a survey and assessment of the resources of the
25 Province of Alberta. This survey was done by J. T.
26 Donald & Company Limited of Montreal.

27 MR. FRAWLEY: Might I just interrupt you
28 and say to the Commission that I have a copy of that
29 survey which was kindly sent to me by the Calgary
30 Power Company. It may be that the Commission's



1
2 research staff already has that copy, and if they have
3 any difficulty locating it I would certainly be glad
4 to make my copy available to them at any time.

5 THE CHAIRMAN: Thank you.

6 THE WITNESS: The first chapter of
7 the Summary Report of the Survey gives a broad statement
8 of Alberta's past economic development and makes some
9 general observations about her potential development.
10 The following paragraphs borrow liberally from this
11 Summary Report.

12 Alberta has had two distinct periods of
13 development. Agricultural growth came first and was
14 followed by industrial development based upon petroleum
15 resources.

16 Agricultural development brought rapid
17 population growth particularly in the first decade of
18 the century. After 1921 the province settled down
19 to slower growth and to development as an agricultural
20 area -- subject to all the vicissitudes of the world
21 markets for wheat, its major product. Coal mining became
22 important, and a few small pools of gas and oil were
23 discovered. Some industries, mainly based on the
24 processing of agricultural products were established.

25 In 1947, with the discovery of the Leduc
26 oilfield, oil and gas exploration became a major indus-
27 try. Reserves developed over the years have justi-
28 fied the building of gas and oil pipe lines across the
29 continent, westward to the Pacific, eastward to the
30 industrial heartland of Canada, and linked with systems



1
2 in the United States. Some of Canada's largest petro-
3 chemical operations have been established in Alberta.
4 These activities have spawned others: new cement plants,
5 steel fabricating mills, greatly increased power pro-
6 duction, expanded roadbuilding programmes and a major
7 boom in commercial and residential construction.

8 While the population of the United States
9 increased by some 19 per cent between 1946 and 1956, and
10 that of Canada by about 30 per cent, Alberta's popula-
11 tion climbed by 40 per cent. Edmonton and Calgary,
12 the two major cities, in the last five years have had
13 the highest growth rates of any metropolitan areas
14 in Canada. The general picture is clear: major dis-
15 coveries in one major resource area have brought great
16 changes in a primarily agricultural economy; capital
17 and people have come into the province to exploit oil
18 and gas; industries that can profitably use these
19 resources as raw materials, or that can supply their
20 requirements in exploration, production and transmission
21 have followed; other local industries have been
22 established and have flourished in the period of
23 boom.

24 Table 1 indicates the changes that have
25 taken place in Alberta's industrial picture in the past
26 12 years and the situation that prevails today. The
27 table gives the net value of production in the major
28 areas of Alberta's economic activity.
29
30



Table 1

Net Value of Alberta Production
(millions of dollars)*

	<u>1946</u>	<u>1958</u>
Agriculture	249	375
Mining (includes oil and gas)	65	300
Manufacturing	84	330
Construction	65	410
Forest Products	5	16
Electric Power	9	40

Source: Dominion Bureau of Statistics and Alberta
Department of Industry and Development.

*Not corrected for price changes.

It is evident that twelve years ago the value of agricultural output was greater than the value of all other production combined. Alberta by 1958 had reached the point where construction, mining and manufacturing, all ranked nearly as large as agriculture. A further breakdown of the manufacturing industry in Alberta is given in Table 2.



Table 2

Gross Value of Production,
Alberta Manufacturing Industries

(Millions of dollars)

<u>Industry Group</u>	<u>Value</u>		<u>1958 Percentage of total</u>
	<u>1955</u>	<u>1958</u>	
Foods and Beverages	273	341	40
Products of Petroleum & Coal	116	151	19
Wood Products	57	55	7
Iron and Steel Products	41	64	9
Chemicals and allied products	37	49	5
Non-metallic mineral products	33	48	5
Printing, Publishing & allied industries	21	27	3
Transportation equipment	19	26	4
Non-ferrous metals products	15	22	3
Pulp and paper products	10	29	2
Other manufacturing industries	<u>19</u>	<u>31</u>	<u>3</u>
Total	641	845	100

Source: Dominion Bureau of Statistics.

In the period 1939-56, Alberta led all other provinces in her percentage increases in employment in manufacturing, earnings in manufacturing, and value added by manufacturing. But this rate of progress is likely to be surpassed in the future. Development to date -- witness the heavy domination of the group by food and beverage industry -- is a holdover from the past. The development of the wood-using industries, the chemical industries, the non-ferrous metal industry,



1
2 and all the industries not separately classified may
3 be expected to expand. In many areas much opportunity
4 still lies.

5 The expansion of Alberta will continue because
6 her own population will expand and form an increasing
7 market, and because her resources will allow the
8 establishment of industries able to supply markets for
9 the rest of Canada and throughout the world. Some
10 idea of the available resources may be gained from the
11 following tabulation:

12 Coal reserves	48,000 million tons
13 Recoverable proven reserves 14 of crude oil	3,100 million barrels
15 Recoverable proven reserves 16 of natural gas	28,000 billion cubic feet
17 Estimated crude oil content, 18 Athabasca oil sands	100 - 300 million barrels
19 Undeveloped hydro-electric 20 potential	2,500,000 kilowatts
21 Potential additional arable 22 land	15,800,000 acres
23 Merchantable timber 24 reserves	53,000 million cubic feet

25 Source: Various publications of the
26 Government of Alberta

27 The Donald survey gives two projections of
28 interest with respect to Alberta's future growth. It
29 has estimated the net value of production by major
30 economic sectors for 1975 (Table 4).



Table 3

Projected Net Value of Production in Alberta in 1975

	1975 (millions of dollars)	Ratio of Increase 1955/1975
Agriculture	450	1.40
Construction	1,000	2.95
Manufacturing	800	3.04
Mining	1,600	5.27
Electric Power	120	4.15
Forestry	30	2.27
Other	<u>3</u>	<u>1.11</u>
Total	<u>4,003</u>	<u>3.14</u>

Source: J. T. Donald report for Calgary Power Ltd



Table 4

Projected Increase in the Value of
Manufacturing in Alberta 1955 to 1975
By Industry Groups

	<u>Percent Increase</u>
Food and Beverages	105
Products of Petroleum and Coal	219
Wood products	75
Iron and Steel Products	388
Chemicals and Allied Products	468
Non-metallic mineral products	279
Printing, Publishing and Allied Industries	210
Transportation equipment	216
Non-ferrous metal products	500
Pulp and Paper Products	1,100
Other manufacturing industries	<u>426</u>
Total	212

Source: J. T. Donald report for Calgary Power Ltd.

I may say quite frankly, sir, that there is sometimes the assumption that because Alberta has in certain aspects of its economic development shown very substantial percentage increases that this in itself is a complete argument to the proposal that freight rates as one thing discriminate against Alberta. We are not able to accept this view, sir, because we believe that the economic development of Alberta should properly be gauged with reference to its potential and not with reference to its historical



1
2 statistical picture. We think the evidence is clear
3 that historically its development has been held back
4 by, among other things, the freight rate situation
5 that it faces.

6 So, while we as Albertans, of course, are
7 very happy with the developments that have taken place,
8 we do not think that it would be correct to assume
9 that the pace of development in itself is an argument
10 against those things that we consider to be wrong with
11 the freight rate structure.

12 The whole purpose of this particular section
13 is not to deny the strides which have been made, but
14 rather to set them out in clear form, and also to show
15 the economic potential. We suggest, sir, that the
16 realization of this potential can be greatly influenced
17 by the nature of the transportation policies which are
18 pursued.

19 It is clear that the economic potential of
20 Alberta is large. The realization of this potential
21 can be greatly influenced by the nature of the
22 transportation policies which are pursued. There is
23 a grave danger that the maintenance of present policies
24 will seriously impair the industrialization and develop-
25 ment of Alberta. It should also be noted that the
26 development of Alberta has a very favourable impact
27 on the general economic health of Canada. Alberta
28 has been and will continue to be a very attractive
29 investment area for both Canadian and foreign capital.
30 The employment opportunities in Alberta will give added



1
2 incentives for all Canadians to utilize their talents
3 for Canada instead of migrating to foreign lands.
4 Lastly, it may be said that for each dollar spent in
5 Alberta for development an additional dollar and
6 one-half is spent in other parts of Canada to create
7 trade and employment there.

8 The relationship between Alberta's present
9 and potential economic activity and the welfare of
10 her citizens rests to a significant extent upon transpor-
11 tation arrangements and costs.

12 I simply wish to point out, sir, that when
13 we speak of Alberta's economic development I hope we
14 are not being too provincial, because the extent to
15 which Alberta can develop is of major assistance to the
16 rest of Canada, as shown particularly by the development
17 of her petroleum resources.

18 In the next section the effect of transporta-
19 tion on the standard of living of Alberta consumers is
20 considered.

21 III. The Burden of Transportation on the
22 Alberta Consumer.

23 The ultimate consumer in Alberta is concerned
24 with transportation costs primarily as they affect the
25 price of the commodities and services that he must pur-
26 chase. These prices can be influenced by transporta-
27 tion costs in two ways: directly through the transporta-
28 tion rates themselves, or, indirectly through the effect
29 of transportation costs on price policy. These matters
30



1
2 will be discussed in turn.

3 A. The Cost of Transportation.

4 It is well known that land transportation costs
5 regardless of the particular freight rate structure
6 are essentially a function of distance. Alberta's
7 mid-continent location implies that, to the extent
8 that the goods and services required by her residents
9 must come from outside the area, there will be a large
10 element of freight cost attached to them. Regardless
11 of the transportation policies pursued it will be
12 generally agreed that this situation must maintain.

13 If I may, sir, we would like to emphasize
14 that we do not think Alberta is ever going to have
15 low freight rates in comparison with the more favourably
16 geographically situated parts of Canada.

17 We recognize that we are a long way from
18 major markets and that we must absorb high transporta-
19 tion costs. When I say "high", I use that descrip-
20 tion in relation to the more favourably located areas,
21 and this we think will continue for a long time. The
22 thing that we are continually concerned about is that
23 the high does not get higher or that it is not an
24 unreasonable portion of the total transportation bill.

25 An examination of various consumer costs will
26 show the importance of the freight element to Albertans.
27 Food costs usually account for approximately 25 per
28 cent of the normal household expenditure. In Alberta
29 the cost to the consumer of the basic food necessities
30 such as milk, meat, and cereals are not, to any



1
2 important extent, disproportionately altered by trans-
3 portation costs. The price of these items is deter-
4 mined locally or alternately on a central market
5 linked to the local market by a transportation differ-
6 ential. (Milk is priced on a local market basis.
7 Wheat is priced at Vancouver or Fort William less
8 export freight on the grain. Livestock is usually
9 Toronto less freight but during the past two years
10 western markets many times have been above Toronto.)

11 In the matter of secondary food items
12 including such things as canned goods, some fresh
13 fruits, and the like; transportation costs are again
14 not a major item although price is influenced to a
15 limited extent by transportation. As the standard
16 of living of Alberta consumers increases, transporta-
17 tion becomes a more important factor. Indeed, some
18 have suggested that the better the transportation
19 system, the higher the standard of living particularly
20 with respect to food items. Florida oranges, Texas
21 grapefruit and California lettuce are now usually
22 accepted as part of the staple diet of Alberta house-
23 holds and this is so because of their availability
24 due to transportation.

25 Clothing and other personal necessities
26 which account for another twenty-five per cent of
27 the consumer budget all have a modest transportation
28 component in their consumer price. The important
29 area as far as the consumer is concerned is in the
30 field of consumer durables such as appliances,



1
2 automobiles, and furniture. These consumer durables
3 are price sensitive to transportation costs and as a
4 general proposition it is accurate to say that the
5 price of these goods in Alberta is higher than it
6 is in other parts of Canada because of transportation
7 cost.

8 Consumer durables have borne the brunt of
9 the transportation cost increases during the past
10 fifteen years. The market in Alberta or indeed in
11 western Canada is not large enough to encourage the
12 establishment of industries that manufacture most of
13 the major consumer durables and, therefore, these
14 goods have not been able to escape transportation cost
15 increases. The only possibility for tempering the
16 full impact of railway cost increases has been through
17 the medium of competitive transportation. It has not
18 been sufficiently stressed that these competitive
19 media have only been made competitive by reason of
20 very substantial increases in the railway rates
21 that applied in previous years. It may be some
22 solace to the consumer to know that because of carrier
23 competition he is paying only twice the transportation
24 cost that he did ten years ago rather than two
25 and one-half times the cost.

26 The third area in which the consumer is
27 directly affected by freight rates is in the provision
28 of housing which accounts for a further 25 per cent
29 of expenditure. While typically, building construc-
30 tion in Alberta utilizes a percentage of locally



1 produced material, the cost of such locally .
2 produced material is generally based on national prices
3 which take into account transportation costs; or the
4 materials themselves have a relatively large pro-
5 portion of transportation cost in their pricing.
6 Examples of the first type are roofing materials,
7 windows, floor coverings, heating and plumbing
8 apparatus, and so forth. These items are manufactured
9 to a limited extent in Alberta but in all cases their
10 cost to the Alberta housebuilder is based upon
11 national price which reflects transportation costs
12 from the major producing centres of eastern Canada.
13 Examples of the second type are brick, cement, and
14 lumber. These items are priced on a modified
15 local cost basis but each must pay a substantial
16 freight cost to all locations not proximate to the
17 point of production.

18 In summary, it may be concluded that some
19 food items, most clothing, and virtually all consumer
20 durables including housing are priced to include
21 transportation costs. These costs are significantly
22 greater for the Alberta consumer than they are for
23 most other areas of Canada. It may also be concluded
24 that as transportation costs increase, and especially
25 if the horizontal percentage method of applying these
26 increased costs to the price of transportation services
27 is used, the burden on the Alberta consumer will be
28 progressively heavier. The Alberta consumer bears
29 the brunt of a horizontal percentage increase because
30 of the magnitude of the initial rate, and, because



1
2 of the failure of this method of increasing rates
3 to spread the burden on all traffic. Other consumers
4 in Canada bear a share of freight rate increases but
5 this share is proportionately less than the one
6 assumed by Alberta residents.

7 And this, once again, goes back to Alberta's
8 location and to the type of freight rate structure
9 that we have.

10
11 B. Transportation Costs and Price Policy.

12 Transportation costs also have an effect
13 on the Alberta consumer because of the impact of
14 freight rates on price policies. The previous
15 section made reference to this situation but it
16 merits further elaboration.

17 It is recognized that transportation
18 rates may be a cost to the consumer even in the ab-
19 sence of actual traffic movement. This results as
20 a consequence of the price interrelationship that
21 exists between producers in geographically separate
22 markets. Such interrelationships can work in favour
23 of and also against a particular area. The so-called
24 national pricing policy or "postage stamp pricing policy"
25 is gaining acceptance in the pricing of a number of
26 consumer items. Drug items, soap, floor wax, and
27 these sorts of things offer excellent illustrations.
28 In the case of Alberta, the trend of national pricing
29 works to the advantage of the consumer except in the
30 case of those few items which are manufactured in



1
2 Alberta.

3 Automobile manufacturers have evolved a system
4 of freight absorption or regional pricing. The
5 effect of this modified national pricing is to reduce
6 the price which would normally be paid for automobiles in
7 Alberta. It has a further advantage from the stand-
8 point of the carriers in that it encourages the movement
9 of automobiles from the factory by commercial means.
10 It discourages direct factory deliveries to consumers
11 including railway employees who drive the car home.

12 A refinement of the "Pittsburg Plus"
13 pricing policy accepts a base price and adds to that
14 base price phantom freight irrespective of the actual
15 location of the producing facility. Since World War II,
16 the development of industry in western Canada and the
17 use of this pricing procedure has tended to obscure
18 the real impact on the consumer of transportation cost
19 increases. In particular, the use of the horizontal
20 percentage increase mechanism subject to all its well
21 known disabilities as far as the carriers and consumers
22 are concerned, is also subject to this further dis-
23 ability.

24 The cement and the sugar industry in western
25 Canada both use the "Pittsburg Plus" policy. This kind
26 of pricing policy is frequently misunderstood, and it
27 may be well to indicate how it works. It depends for
28 its success upon the establishment of a base mill price.
29 This price is obtained from the sum of production
30 costs plus profit. A low cost will allow a low base



1
2 mill price and a high cost will require a high base
3 mill price. While there is some flexibility in the
4 adjustment of freight rates because of competition,
5 essentially the same rate scales apply to the product
6 of every plant. The selling price of the product,
7 therefore, is the lowest combination of the base mill
8 price plus the freight. It follows that if the base
9 mill price is low due to low costs, the selling price
10 will be low unless it includes freight charges for a
11 long haul.

12 Any plant utilizing a base mill price defines
13 a natural market area for its product. It is the
14 area within which the base mill price of the plant
15 plus railway freight is lower than the base mill price
16 of competing plants plus their rail freight. The
17 extent of the natural market area depends on the level
18 of the base mill price. In many instances the base
19 mill price is a competitive price derived by us of a
20 competitor's base mill price plus freight. In other
21 words, many plants have no natural market area.

22 In instances where there is no natural market
23 area each and every freight rate increase has the effect
24 of increasing the consumer cost of the product even
25 though no outbound transportation is involved. Very
26 few plants have no inbound transport cost and con-
27 sequently price increases brought about by freight
28 rate increases are not absorbed as profit by the manu-
29 facturer but are dissipated, in part at least, on
30 inbound freight costs.



1
2 The "hidden" effect of transportation costs
3 on the Alberta consumer will tend to increase as long
4 as freight rates continue their postwar climb. Carrier
5 revenues may be expected to decline due to the
6 combined effect of two complementary progressions:
7 first, the establishment of local manufacturing due to
8 the customs tariff effect of freight rates, and second,
9 the existence of local manufacture will be an incentive
10 to the carriers to grant market competitive rates to
11 present sources of supply. In either case the
12 pricing policy will remain dependent on transportation
13 rates which will continue to be reflected in the cost
14 of goods to the Alberta consumer.

15 If I may, sir, I would like to elaborate
16 just a little on these two proposals that we have just
17 put forward; that is, the complementary progressions.
18 What happens, of course, as your freight rates get
19 higher you encourage local manufacturing. If local
20 manufacturing does commence, then the railways lose,
21 because they lose the long hauls from outside the
22 area. This has a deleterious effect on the revenue.
23 But, then, secondly, when you get local manufacturing
24 established then the manufacturers who previously
25 served the market can properly, and many times do,
26 go to the railways and get market competitive rates
27 into the area. So, here you get a second revenue
28 impact on the railway or transportation agency.

29 COMMISSIONER MANN: Dr. Harries, on that
30 point -- and you may want to give that some consideration



1
2 -- when we had the submission of the Province of
3 Manitoba it was made clear to us that the railways do
4 not recognize market competition within Canada.

5 Now, your statement here is in direct
6 conflict with that made by the Province of Manitoba, and
7 I wonder what your resolution of this conflict would
8 be. You might want to think about this and check
9 what the witness for the Province of Manitoba has
10 said before you answer it.

11 THE WITNESS: I have checked that, sir.
12 I just don't agree. As a matter of fact, I would be
13 glad to go into some more detail in connection with why
14 I hold that opinion, but it is a considered opinion,
15 sir, that there are rate changes in response to market
16 competitive conditions internally. I do not think
17 there is anything wrong with that. I think it is
18 perfectly understandable. And, as I say, I am sure
19 it exists. So, I will leave that as a statement, sir.

20 COMMISSIONER MANN: Thank you very much.

21 MR. SINCLAIR: Well, we are very interested
22 in this, and we would like some examples in Canada.

23 MR. FRAWLEY: Well, there will be, as I
24 said this morning, and I still hold to it -- I do not
25 mind having that piece of the cross-examination take
26 place now, but perhaps it would be a little more
27 orderly if it were done later. What does the Com-
28 mission think?

29 THE CHAIRMAN: We will go on. I think
30 Mr. Sinclair has a note of it.



1
2 MR. FRAWLEY: Yes.

3 THE WITNESS: I would like to suggest,
4 though, that this combined effect on railway revenues
5 of increasing freight rates is something that I know
6 gives the railways concern and it certainly gives those
7 of us in Alberta who considered the problem concern,
8 because the higher the rate structure gets, you
9 not only lose by the well known competition activities
10 of other carriers, you lose within the rate structure
11 itself. The competitive aspects of rate increases,
12 I think, may have been over-emphasized. These
13 other things are probably equally important because
14 we see it happening in Alberta.

15 In summary, it may be stated that the
16 Alberta consumer pays higher prices by reason of
17 increased transport costs although in some circumstances
18 there may actually be no transportation directly
19 connected with the sale of the product. Alberta in-
20 dustry may "hide behind" freight rate costs and thus
21 have an economic basis for developing where previously
22 it could not. Freight rates in either case are a
23 burden on the consumer.

24
25 IV. Transportation Costs and The Distributor.

26 Transportation costs generally, and many
27 particular freight rates, have frequently been dis-
28 cussed with reference to their impact on the distri-
29 buting trade. Much transportation theory has been
30 directed to an examination of the effects of freight



1
2 rate changes on the alteration of distributiong patterns.
3 Administrative tribunals and Royal Commissions have
4 not infrequently stressed the effects of changing
5 transportation rates on distributors such as those found
6 in the major cities in western Canada. Looking at the
7 history of transportation rates in western Canada it is
8 obvious that the interests of the Winnipeg distributor
9 have received more concern and consideration than the
10 interest of any one group of consumers, even those in
11 the City of Winnipeg itself. This preoccupation with
12 the position of the distributor is not at all sur-
13 prising because it is in this area that the most
14 direct and obvious conclusions with respect to trans-
15 portation charges can be drawn.

16 That statement is based upon our reading of
17 Western Rates Case, and a whole series of cases before
18 the Board of Transport Commissioners. We say it is
19 not surprising, but we do think it is a fact.

20 The absolute cost of transportation is usual-
21 ly of limited concern to the distributor. The demand
22 for transportation in general, as distinct from the
23 demand for a specific kind of transportation, is
24 inelastic within rather wide limits. Consumers do
25 not buy significantly more if the price is a few cents
26 lower nor do they buy, in total, significantly less if
27 the price is a few percent higher, but they may well
28 change their source of supply for a particular com-
29 modity in response to relatively small differences
30 in price. The distributor's problem is usually one of



1
2 market areas defined by rate parity with other distri-
3 butors. It is in this connection that particular
4 freight rate relationships assume their importance.
5 In the case of Alberta distributors it is this fact
6 that explains the emphasis traditionally placed on
7 long and short haul discrimination.

8 In other rate matters, such as the incentive
9 rates, (reference is here made to the series of rates
10 published by the railways from some major distributing
11 points in western Canada, e.g. CPW 975 and CNW 950)
12 the distributing class rates, the terminal rates, the
13 rate groupings, and the mixing rules, the emphasis is
14 primarily on their impact upon the distributor. The
15 development of industry and a more complete network
16 of competing transportation services has made these
17 rather technical aspects of freight rate construction
18 of less importance. The distributor, who in many
19 respects was the key man in freight rate matters, is
20 diminishing in importance and will continue to
21 diminish. This is not to suggest that the distributor
22 is becoming less important as an economic factor in
23 Alberta's development. It is simply to suggest that
24 his market activity is becoming progressively less
25 dependent on railway transportation policy.

26 Discriminatory transportation pricing to an
27 extent not usually realized or admitted has made the
28 railways, albeit unwillingly, the arbiters of com-
29 mercial policy. The impact of inter-carrier com-
30 petition and subsequent pressure on the value of



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(Frawley)

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2 service principle indicates the railways will no
3 longer play the same role, particularly in the case
4 of the distributor. The distributor will still require
5 equitable relative rates but these are more likely to
6 come as a consequence of competition and not as a
7 product of the regulative process as such.
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3 V. THE TRANSPORTATION FACTOR IN INDUSTRIALIZATION

4 The Province of Alberta's primary concern now,
5 and in the future, with respect to transportation policy
6 will undoubtedly center about the impact of those policies
7 on industrial development. It is convenient to consider
8 two broad areas. First, the primary producers; and second,
9 the manufacturing and processing industry.
10

11 A. Primary Producers.

12 The position of the primary producers in Alberta
13 is well known to all members of this Commission, In spite
14 of the long and confused argument that has characterized
15 discussion of the question "who pays the freight?", the
16 weight of evidence unquestionably indicates that Alberta's
17 primary producers (Agriculture, Forestry and Mining) in
18 all but exceptional circumstances, find transport costs as
19 a net reduction from the price they receive. That is a
20 carefully considered statement. That does not say that
21 the primary producers pay it but that is what they can be
22 calculated as a result of what we have done in this matter.
23 In respect to these primary producers there is an inherent
24 conflict in present Canadian transport policy. This policy
25 seeks to treat the transport function in general as a
26 "public utility" but exempts, through economic necessity
27 or political choice, a large portion of that function.
28 This statement is supported by Table 5 which summarizes
29 the estimated result of a general freight rate increase
30 of 19% submitted by Canadian Pacific and Canadian National

TABLE 5, Part 1 C A N A D I A N P A C I F I C R A I L W A Y (Canadian Lines)

Estimated Result of a General Freight Rate Increase of 19% (25 cents per ton on Coal and Coke) for the 14 Month Period, Nov. 1, 1958 to Dec. 31, 1959.

Description of Traffic	Est. Revenue Nov. 1, 1958 to Dec. 31, 1959 (millions)	Percentage of Total	Amount of Increase	Est. Revenue Yield in Dollars Nov. 1, 1958 to Dec. 31, 1959	Percentage of Total
Grain and Grain Products subject to Statutory and Related Rates	\$37.8	6.6	No increase \$	---	---
International, Overhead, Import- Export and Other Related Traffic	159.0	27.5	U.S. increases Applied	---	---
Coal and Coke, Tons - 8,850,000	24.2	4.2	25¢ per ton	\$1,765,600	4.3
Competitive Rates	85.8	14.8	19%	8,151,000	20.0
Agreed Charges	65.4	11.3	See Note	313,500	.8
All Other Freight Traffic	201.9	35.0	19%	29,921,600	73.3
Total Freight Traffic	574.1			40,151,700	
Miscellaneous Traffic subject to Freight Rate Increase	3.6	.6	19%	684,000	1.6
GRAND TOTAL	\$577.7	100.0		\$40,835,700	100.0

Note: Increase to be applied where agreed charge contains an escalator clause providing for application of increases authorized by Board of Transport Commissioners for Canada.

Estimated Result of a General Freight Rate Increase of 19%
(25¢ per ton on Coal and Coke)

Type of Traffic	Est. Revenue Nov. 1, 1958 to Dec. 31, 1959 (millions)	Percentage of Total	Amount of Increase	Est. Revenue Yield in Dollars Nov. 1, 1958 to Dec. 31, 1959	Per- centage of Total
Grain and Grain Products at Statutory and Related Rates	\$44.7	9.38	No increase	\$ --	--
International, Overhead, Import- Export and Other Related Rates	141.1	29.62	U.S. Increases Applied	---	--
Coal and Coke	19.1	4.0	25¢ per ton	1,425,000	4.52
Competitive Rates	58.7	12.32	19%	5,576,000	17.67
Agreed Charges	56.0	11.75	See Note	553,000	1.75
All Other Freight Traffic	<u>152.6</u>	32.03	19%	<u>23,195,000</u>	73.53
All Freight Traffic	472.2			30,749,000	
Miscellaneous Traffic Subject to Freight Rate Increases	<u>4.2</u>	<u>.90</u>	<u>19%</u>	<u>798,000</u>	<u>2.53</u>
GRAND TOTAL	\$476.4	100.00		\$31,547,000	100.00

Note: Estimated Revenue Yield is calculated by applying 19% increase to Agreed Charges containing Escalator Clause.



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3 during the last rate increase hearing. We have calculated
4 the percentages of traffic and of revenue to indicate the
5 impact on the various classes of freight. The problem is
6 most acute in connection with railways but it is, of course,
7 present with the other carriers. Some highway carriers
8 which are regulated as in Saskatchewan; also some northern
9 air carriers.

10 If any group has profited over the years from
11 discriminatory transportation pricing in a "regulated
12 railway economy", it has been the primary producer and
13 the railways. There is evidence to indicate that the
14 extent of the benefit to both parties has been over
15 emphasized. In today's circumstances of mixed control,
16 both within particular transportation agencies and between
17 agencies, the primary producer is falling heir to an
18 unfair burden. The burden is unfair because it requires
19 shippers with an inelastic demand to pay out of pocket
20 variable costs plus overhead where the overhead arises as
21 a result of a transportation system established to move
22 traffic volumes greatly in excess of those now moving.
23 He is expected to carry his own transportation cost, and on
24 the basis of misguided theory, to meet the residual cost
25 of transportation services rendered to other users.

26 There is no simple answer to the problem but it
27 does seem obvious that to continue present regulatory
28 policies without giving full recognition to the changing
29 circumstances that now exist, is to fail to do justice to
30 either the carriers or the primary producers. The trend



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3 to loading more and more cost upon the low valued
4 commodities restricts the movement of these commodities
5 or alternately the total volume of movement by the
6 regulated carrier. Within the past ten years in Alberta,
7 there has been a significant change in the type of
8 commodity that can profitably be moved by truck. This
9 change has come about not through any change in the
10 transportation characteristic of the commodity but solely
11 through a change in the relative cost of shipping by rail
12 as against shipment by truck. This, of course, is related
13 to better highways, better trucking equipment and higher
14 rail rates.

15 The development of primary production in Alberta
16 is not fundamentally a matter of relative rates within
17 Canada. It is concerned almost solely with the absolute
18 level of rates. In other words, there is involved the
19 general question of how transportation services and
20 especially rail services are to be priced. While there
21 has certainly been an upward trend in basic commodity
22 prices for 15 years and this has encouraged development
23 it is these same commodities which are most sensitive to
24 price declines.

25 B. Manufacturing and Processing.
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27 It has already been indicated that manufacturing
28 and processing activity in Alberta has undergone some
29 profound changes in the past 12 years. The extent to which
30 this development will continue is dependent, to a degree
at least, upon the transportation requirements and



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3 and arrangements that exist. There are two types of
4 industry in Alberta. One type caters to a local market
5 and is in part helped by high transportation costs from
6 other producing areas. This came into it before but if I
7 may I would put it in again. This type of industry
8 illustrates the well known customs tariff effect of
9 transportation rates. Such industry is relatively
10 unimportant if we are to gain the advantages of
11 specialization. Too frequently people who stress the
12 desirability of erecting freight rate barriers to encourage
13 local industry fail to realize that the economic
14 Balkanization of Canada can only weaken our national
15 economy.

16 I would like to make that point, that the
17 argument of local industry being encouraged by high
18 transport costs usually involves a misuse of the resources.
19 Our economy must be based on specialization and to the
20 extent that artificially high transport costs are used
21 to encourage industry, we are not gaining advantage of the
22 specialization if we in Alberta can grow feeder steers
23 cheaper and better than the people in Ontario and the
24 people in Ontario can grow fodder to fatten those steers
25 then we want to have the advantage of specialization from
26 Ontario to Alberta. On the basis of artificially high
27 transport costs that situation is burdened. In connection
28 with the feeder steers, I am not sure that the economics
29 are such as to justify a movement to Ontario but I use that
30 as an example.



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3 The second type of industry is one that utilizes
4 the native skills and resources of Alberta and places
5 products on the national or world market. This type of
6 industry depends for its survival upon being able to
7 compete with similar products from other areas and it is
8 far more important relatively and absolutely than the
9 first type mentioned. Both transportation technology and
10 transportation price policy are tremendously important to
11 this kind of industry.

12 We think that is the type of industry that should
13 be encouraged. But a possible example is the Petro Chemical
14 Industry where there must be great capital investments. The
15 Canadian Petro-Chemical in Edmonton have a capital investment
16 of \$85 million dollars and they are serving a world market,
17 not a Canadian market and not an Alberta market. They must
18 have the best possible transportation to enable them to
19 compete with like companies situated on the Gulf Coast of
20 the United States where they have cheap transportation.
21 We have some advantages in the Prairies but these advantages
22 might easily be outweighed by the disadvantages of location.
23 All I am suggesting is for the long run benefit of the
24 economy we should do everything we can to encourage the
25 type of industry which based upon this ability to compete
26 will give us a share of Canadian markets and world markets.
27 To retreat to encouraging local industry based upon
28 artificial restraint is, we think, quite wrong.

29 The introduction of pipelines is probably the
30 most significant technological advance to affect the
general industrial development of Alberta within the past



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3 25 years. The raw materials for what is generally
4 described as the petro-chemical industry uses these raw
5 materials at all, is first dependent upon the absolute
6 cost of the products which can be made from these
7 materials. Whether the products are processed in Alberta
8 or taken from Alberta as raw materials and processed
9 elsewhere is largely a matter relative costs in which
10 transportation is an important factor. For example,
11 propane and butane (liquefied petroleum gases) are
12 primary raw materials in petro-chemical manufacture and
13 both can be obtained in Alberta. Alternately, these
14 same raw materials can be shipped via pipeline to
15 consuming centers and there employed in the petro-
16 chemical industry. Another possibility is that crude
17 oil itself can provide these basic materials in the form
18 of liquefied refinery gases after it has been partially
19 processed in a refinery. The extent to which petro-
20 chemical development will take place in Alberta must
21 therefore depend upon the cost of these raw materials at
22 either the producing or the consuming center. The
23 absolute cost of transportation as well as the relative
24 cost of transportation, after allowance for the
25 conversion rates of physical product, will be a
26 determining factor in the locational analysis.

27 A less basic type of manufacturing industry
28 which is found in Alberta looks to the importation of
29 some of its raw material or semi-finished material from
30 another area. Here again the location of the industry
will be determined by relative transportation rates and



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3 the volume of finished product which must be marketed
4 outside the area. Pipe making is an example of this type
5 of manufacturing.

6 It is obvious that where only the absolute cost
7 of transportation is concerned no different principles
8 apply with the manufacturing and processing industry
9 than those which pertain in the case of the primary
10 industries. It is purely a matter of the level at which
11 the rates are established. The higher the rate level the
12 less will be the volume of transportation purchased,
13 measured in physical terms such as ton-miles. If
14 physical conversion rates are high from raw material to
15 product, the locational choice will always be at the raw
16 material source, and whether the product will be
17 manufactured will depend upon the ability of the
18 product to absorb transportation costs to the market.
19 In the area of relative costs, transportation policy
20 itself will, in part, determine location. The value of
21 service principle astutely applied could be used to keep
22 certain areas of Canada "hewers of wood and drawers of
23 water" for decades. Failure to realize this has been one
24 of the fundamental problems in connection with long and
25 short haul discrimination, and long and short haul
26 discrimination is but one rather obvious aspect of the
27 manipulation of the freight rate structure that present
28 policy makes possible.



VI. TRANSPORTATION PRICE POLICY

This general discussion of the economic position of Alberta users of transportation services has endeavoured to show that all groups in the economy have a very important stake in the price policies which are pursued by the carriers. What are these policies?

Railway prices are determined on what might be termed a quasi public utility basis. Under the jurisdiction of the Board of Transport Commissioners, freight rates are established by the railways. There are two general groups of rates; (a) competitive - i.e. those subject to a determination by the forces of competition using that word in its widest sense, and, (b) non-competitive - all other rates the level of which is determined either by statute or by the application of an earnings formula which arbitrarily assigns a



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3 proportion of overhead to each type of rate. This
4 proportion is based essentially on the freight classification
5 combined with an "approved" distance scale. As has been
6 indicated earlier, this method of making railway freight
7 rates assigns to non-competitive and non-statutory rates
8 a "residual" which is that part of the overhead connected
9 with railway operations not taken up by rates in the
10 competitive sphere. As competition asserts itself with
11 greater force in all parts of the transportation economy
12 the non-competitive sector assumes an ever increasing
13 proportion of total overhead. It is correct to say that
14 under present circumstances there exists no valid measure
15 of the appropriateness of the size of the residual that
16 must be absorbed by the non-competitive sector. Public
17 utility control fails where such control denies the
18 applicability of external tests of reasonableness and this
19 is the present situation with respect to railway freight
20 rates.

21 In other words, what I am saying is where you
22 have the public utility deprived of control. By that I
23 mean a control which is directed primarily to limitation
24 on maximum earnings of the utility. Then they tell me
25 you get equity as between various users only to the
26 extent that they contribute and are a part of the control
27 mechanism. Here with the railway, you, by force of
28 circumstances, exempt whole broad areas and it is shown
29 very well in the Canadian National-Canadian Pacific
30 exhibit that we show Table 5, Part 1 and 2 whereby you
see there are by force of circumstances substantial blocks



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3 of the traffic which just cannot be touched in connection
4 with the general increase. An outcome of this is not to
5 say that they do not pay some of the increase because they
6 do when there is an increase in international traffic.
7 However, but by and large it is my belief that we are
8 attempting to control on a public utility basis an
9 operation that excludes a large and significant part of
10 the total traffic and total revenue that you are leaving
11 the balance, the non-competitive sector and more properly
12 that sector which you can control with a residual. The
13 residual is simple calculation. As to how much we can
14 get from here, what do we need to make up the difference
15 and it is, as I say, a fairly simple arithmetic calculation.
16 That is what is meant by the non-competitive sector. This
17 to our view is not a reasonable basis for doing it because
18 there is no external or or objective tests of the extent
19 to which this procedure results in fair rate to the non-
20 competitive sector. It is not a problem, of course, in
21 which you get such an overwhelming operation your whole
22 freight rate picture excluded from the observation of
23 the control procedure. In many respects it can be
24 compared to the kind of situation that we have in Alberta
25 with the control of fluid milk price. In this case you
26 cannot look at the ice cream side of the business when
27 you are sorting out the control and this introduces
28 certain arbitrariness in the allocation of overheads
29 between the controlled and the non-controlled. The
30 situation in Alberta with having to do with milk control



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3 is far simpler than this one because at least you are
4 making an allocation as between the controlled and non-
5 controlled. Here, you are simply accepting almost a lump
6 sum residual and their saying "That is what we have to
7 cover" by reference to the non-competitive sector.

8 COMMISSIONER MANN: For my own education, using
9 your example of a controlled fluid milk in Alberta, in this
10 particular case this board that is responsible for setting
11 the rates, to they allow a departure from the rate once
12 it is set. Pretty obviously it is a maximum rate but can
13 you cut under that maximum rate or is it a mandatory price
14 to be charged.

15 THE WITNESS: My understanding is it is a
16 maximum rate and it can be reduced. Now, there has been
17 a long hearing on that. I am basing it on the fact that
18 they set a maximum for home delivery but there is a
19 differential for stores and that differential is not
20 established by the board explicitly. Mr. Platt certainly
21 knows that situation better than I do but that is my
22 understanding and I would be pleased to check it.

23 COMMISSIONER MANN: I can check it with Mr.
24 Platt, thank you.

25 MR. FRAWLEY: If you feel the situation of
26 milk control in Alberta is important I am very glad to
27 go into it. I have the distinction of having been asked
28 by the Alberta Government in 1923 to go abroad which meant
29 as far as Winnipeg to investigate the milk control situation
30 in the province of Manitoba who had had it first of all in
Canada. As a result of a recommendation made by me and



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3 my co-committee men, the provincial dairy inspector,
4 . the production marketing of milk was put under
5 that in 1923. I think since that time it has being going
6 along with success.

7 COMMISSIONER MANN: I certainly do not want to
8 raise matters on the distribution of milk ~~scheme to the~~
9 level of ~~freight~~ rate structure but what I was trying to
10 find out is whether there is a distinction to be made
11 in public utility control but in as much as it authorizes
12 a maximum rate or in as much as it declares a maximum
13 rate.

14 MR. FRAWLEY: In other words, was it a fixed
15 rate. Speaking of milk I observe my friend Mr. Cumming
16 rising and I might say that the province of British
17 Columbia contributed to the litigation end of it.

18 MR. CUMMING: Mr. Frawley apparently generated
19 the idea that a cow is a public utility and we struggled
20 with that one quite a long time.

21 MR. SINCLAIR: That Royal Commission in
22 Winnipeg was successful from the standpoint ~~of~~ the
23 people who appeared before them.

24 MR. FRAWLEY: From the standpoint of the bar.

25 THE WITNESS: Turning specifically to the
26 Alberta situation it is obvious that under present
27 policy the absolute level of freight rates is determined
28 by an accounting method that thrusts upon most Alberta
29 shippers and receivers of freight a residual cost figure.
30 In these circumstances, the only relief from higher and



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3 and higher freight rates is to be found in lower costs,
4 (through improved technology, competition, or more
5 efficient operations), or in some system which restricts
6 the size of the residual cost, or alternately has
7 someone else pay it. Attempts to restrict the size of
8 the residual cost are probably fore-doomed to failure
9 because of the continued pressure on transportation agencies
10 from competition and internal cost increases which
11 effectively negate the possible advantages to the
12 shippers of technological improvements. What I am saying
13 is, as I read the story the advantages have been going to
14 the labour force and not to the shippers. I think that is
15 a fair statement. This realization inevitably forces most
16 analysts to seek the third alternative, namely a Government
17 subsidy.

18 The relative level of freight rates which are
19 now determined by the transportation characteristics of
20 the commodity, the degree of competition, and the
21 bargaining ability of the shipper are probably in the
22 long run more important to Alberta than to any area in
23 Canada because the economy of Alberta is undergoing such
24 significant changes. The problem of relative rates is
25 well illustrated by the long and short haul discrimination
26 that has been such a prominent part of the railway freight rate
27 structure in Western Canada for many years. I probably
28 should say in Alberta. The report of the Royal Commission
29 on Transportation summed up the position of Alberta when
30 it said:



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3 "It is really the size of this
4 disparity in dollars and cents per
5 100 pounds, in the instances mentioned,
6 that is the cause of the complaints; if
7 the difference were only a few cents per
8 100 pounds the disparity would scarcely
9 be noticed. It seems difficult at first
10 to understand why a rate on canned
11 vegetables from Toronto to Calgary
12 should be \$2.65 per 100 pounds when the
13 rate on the same article to Vancouver is
14 \$1.40 per 100 pounds.

15 For many years the extreme anomalies
16 created by transcontinental rates have
17 been a sore point in the Province of
18 Alberta, particularly in Calgary and
19 Edmonton which pay the highest inter-
20 mediate rate of any distributing point
21 short of Vancouver." Report of the
22 Royal Commission on Transportation (1951)
23 page 99.

24 As competition has spread within Western
25 Canada and indeed throughout Canada the type of anomaly
26 illustrated by long and short haul discrimination has
27 tended to become more obvious. This has taken place
28 despite the attempts which have been made to "equalize"
29 freight rates in various areas.

30 The price policies pursued by highway carriers



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3 show a great variability throughout Canada. In Alberta
4 where no control is exercised by a regulatory tribunal,
5 highway freight rates tend to be established on a pure
6 cost basis except in the case of some gravel hauls where
7 the Provincial Government imposes an arbitrary schedule
8 of rates for the use of its contractors.
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2 In Saskatchewan, on the other hand, a highway traffic
3 board issues certificates of convenience and
4 necessity and prescribes rate schedules which our
5 study indicates are designed on the basis of railway
6 tariffs. It is quite natural to have highway carriers
7 and regularoty boards adopt railway tariffs as a guide
8 to their own rate making practices because it is in-
9 variably assumed the highway carrier must "compete"
10 with the railway. It is submitted that even in juris-
11 dictions where the most thorough-going rate control
12 over highway carriers has been practised the result
13 has not been to fashion a pattern of transportation
14 control that makes economic sense, as witness the
15 experience in the United States.

16 The rate control which is exercised with
17 respect to water carriers and air carriers is not of
18 immediate concern to western Canada and will not be
19 discussed in this paper.

20 I suggest to the Commission, sir, that the
21 experience in the United States with respect to the
22 control of highway transport is that you first of all
23 get a demand by the railways to control the public
24 service vehicles competing with them, and then you get
25 contract carriers springing up, and you put in a
26 measure of control on them, and then the private
27 carriers, and if you carry the control mechanism to
28 its logical conclusion you must end up by saying to the
29 individual owner of trucks, be he a trucker or business
30 man in which trucking is incidental, "You can't use



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2 your truck for a haul more than this many miles in
3 this direction between these hours of the day," and so
4 on. Maybe Mr. Fairweather for the C.N.R., when he
5 brought forward, as I understood it, a proposal that
6 there should be a limitation within the economic range
7 of highway transport -- I think probably Mr. Fairweather
8 was pretty close to the proposition that is logically to
9 be accepted if you are going to control highway trans-
10 port to the point where your control is really effective,
11 and that is why I have no hesitation in rejecting that
12 kind of proposal because I don't think it makes economic
13 sense.

14 What should happen if you are going to pursue
15 it that far is, you should socialize the whole trans-
16 portation mechanism and then you do away with
17 multiplicity of managers and the difficulties of im-
18 posing on a managerial control an administrative control.
19 There again I have no hesitation in saying I think
20 that would be a sad day for Canada, but logically, at
21 least, that is where this control mechanism leads.

22 COMMISSIONER ANSCOMB: In other words, you
23 are against socializing it?

24 THE WITNESS: I think it would be a catas-
25 trophe for the people of Canada, and particularly for
26 the people of Alberta.

27 In summary, the price policies pursued by
28 present highway and railway rate procedures seek to
29 assure just and reasonable rates to the consumer or
30 user by the combined use of competition and a quasi



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2 public utility control of the carriers. There can be
3 no doubt that this system, while adequate during the
4 years when railway transportation was virtually the
5 only type of long distance land carriage, is not under
6 present circumstances adequate and indeed it is
7 perfectly obvious that the continued use of the system
8 will result in anomalies and inequities on an ever
9 growing scale. In western Canada, whose economic
10 future is inextricably associated with land transport
11 the continued pursuit of present policies could be
12 disastrous.

13 THE CHAIRMAN: I think we are particularly
14 interested in the next section. We are looking for
15 new approaches.

16 MR. FRAWLEY: We didn't come being purely
17 destructively critical, but constructively critical.
18 We lead, others follows.

19 THE WITNESS: VII. A New Approach to
20 Railway Price Policy.

21 During recent years much discussion of the
22 "railway problem" has been devoted to an examination
23 of the proposition that railway price policy which
24 traditionally relied upon the "value of service"
25 principle was by force of competition going to shift
26 more and more to the "cost of service" principle. Only
27 by accepting this shift would it be possible, so it
28 was suggested, for the railways to effectively realize
29 their full potential as the most efficient long
30 distance land carriers available. The examination



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2 takes many forms and the arguments deal with many facets
3 of policy and price but as a generalization certain
4 conclusions emerge. These are:

5 (a) Low valued, low rated commodities should
6 in the future carry a greater share of
7 overhead or fixed costs.

8 (b) Highway transport which skims the "cream
9 of the traffic" from the railways should
10 be regulated for its own protection (due
11 to ease of entry) and for the protection
12 of the railways.

13 (c) Geographic areas dependent on rail transport
14 should in addition to the nominal protection
15 of rate regulation receive subsidies where
16 necessary to prevent their rates from
17 becoming "too high".

18 You can always define "too high" fairly easily: it
19 means what you are paying today, and anything higher,
20 of course, is right out of line. I think that is
21 a fair definition of the way most of us use that term.
22 It is the way I use it in many instances.

23 MR. SINCLAIR: That is a subjective test?

24 THE WITNESS: That is correct, sir.

25 (d) The railways should be freed from the
26 "crippling restrictions" now limiting their ability to
27 meet competition.

28 MR. FRAWLEY: Q. And the words "crippling
29 restrictions" are in quotation marks, indicating they
30 are the words used by others.



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2 A. (e) Railway services carried on in
3 the "national interest" at a loss should
4 be paid for by all the people and not just
5 some of the users of railway service.

6 Stimulated by all or some of these
7 conclusions various writers, some of whom have appeared
8 before this Commission, have advanced proposals for
9 "new" price policies, or the modification of existing
10 ones. These proposals range all the way from the
11 application of a strict "cost of service" principle to
12 the advocacy of bigger and better and more extensive
13 control of all transport services, coupled, of course,
14 with a substantial subsidy.

15 From a practical standpoint we cannot agree
16 with those who would enlarge the scope of the Board
17 of Transport Commissioners present functions nor can
18 we accept the proposal that the adoption of a cost of
19 service standard would of itself solve the railway
20 problem. Indeed, we conclude that the proliferation of
21 control even if done under the guise of seeking the
22 true cost relationships in transportation would
23 simply add to overhead and fail to meet the problem
24 that faces Canada. The problem is this: How can
25 we as a nation obtain the most economic use of our trans-
26 portation resources and at the same time assure
27 equitable treatment to those who provide and those
28 who use those resources?

29 Over the years there has grown up about
30 the transportation industry a body of theory that has



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2 had the effect of removing transportation economics
3 from the area of normal business discussion. It has
4 been treated as a "special" case. Even in our
5 universities we are appointing professors of trans-
6 portation as though it was something quite different
7 from the fellow who deals with brewery economics.
8 There are sound historic reasons for this particularly
9 in Canada where national policy has used the railways
10 as one of its chosen instruments but a continued
11 reliance upon historical analysis and comparison may
12 well blind us to the facts of the current situation.
13 As a general proposition Canadian economic policy
14 accepts the principle that economic efficiency can best
15 be obtained by creating an atmosphere wherein price
16 competition and personal or corporate initiative
17 combine to use resources and services. Many necessary
18 restraints have, of course, been placed on laissez faire
19 but only where Parliament has decided that such re-
20 straints are required to make the system work or to
21 make business practice conform to a desirable social
22 or economic policy, established by the government.

23 Is there still a need to treat transportation
24 policy as a "special case" in Canada? The answer
25 is no! The extent to which competition now flourishes
26 in the transportation industry leads to the con-
27 clusion that transportation is not now a special case
28 and current policies should be amended to reflect
29 these changed circumstances. Competition can take
30 the place of regulation and indeed has taken the place



1
2 of regulation in controlling rates in all but a minor
3 part of the rate structure, namely the non-competitive
4 sector. It is this minor part of the rate structure
5 that still needs the "protection" of regulation but
6 it is precisely this section which under today's
7 circumstances does not receive it. Instead of pro-
8 tection against unreasonable rates this minor part of
9 the rate structure is today used as a means of giving
10 the railways what the Board of Transport Commissioners
11 deems to be reasonable total earnings. (See for
12 example Table 5 of this brief). In other words, there
13 are now no provisions for giving the non-competitive
14 sectors of the rate structure protection against
15 unreasonable rates until the railways have earned what
16 the Board permits.

17 I would like to emphasize that I am perfectly
18 aware the railways have not in many instances earned
19 what the Board permits, but I am saying that is the
20 mechanism and that is how the thing is meant to function.

21 What can take the place of competition in
22 determining the price of transportation services in the
23 non-competitive sector of the transportation economy?

24 I would like to refer to Table 5: there
25 you see that all other freight traffic is going to
26 bear roughly three-quarters of the increase, and this
27 as a percentage of the total, all other freight
28 traffic, is 35 per cent.

29 Q. That is in the case of the Canadian
30 National?



1
2 A. Yes.

3 Q. And in the case of the yardstick
4 company -- the Canadian Pacific -- it is . . . ?

5 A. Once again about 75, all other freight
6 traffic, and 32 per cent ---

7 Q Of the revenue?

8 A. . . . of the revenue. That is the
9 segment that I think this control problem is concerned
10 with.

11 A general system of rate control obviously
12 fails because it burdens the shipper with a cost residual
13 that may or may not be reasonable and in any case it
14 gets more and more out of line with the passage of time.
15 It is submitted that the answer to this question can
16 be found by the application of the same theory used by
17 the Royal Commission on Transportation (1951) in
18 dealing with the problem of transcontinental competitive
19 rates. The Royal Commission recommended that the
20 disparity between competitive and non-competitive rates
21 of a similar type should be limited by statute. This
22 is a proposal that is at once practical and meets
23 the theoretical tests of economic efficiency. Carriers
24 should be free to establish their own scale of charges
25 for the movement of goods. Competition will assure
26 just and reasonable rates where competition exists and
27 where competition does not exist the rates should be
28 related to those applying in the face of competition.
29 The carriers will not set rates below their variable
30 costs because it is not in their interest to do so.



1
2 The upper limit to permissive charges can be determined
3 by a simple formula established by statute; What
4 would be the formula?

5 Many statistical calculations have been
6 made which relate variable costs to total costs. The
7 most recent example is to be found in the cost studies
8 prepared by the railways on the movement of export
9 grain. Without the necessity of getting into a
10 discussion of the merits of this particular study it
11 can be accepted that the study shows constant costs
12 varying from approximately 15 per cent to nearly 25
13 per cent of total costs. (Memorandum in respect of (a)
14 Method Used to Develop the Cost of Handling Grain
15 Traffic Moving at Statutory and Related Rates, and
16 (b) Results of Cost Study, by Ford K. Edwards.)
17 Other studies have shown that on an overall basis con-
18 stant costs may be as high as 50 per cent of variable
19 costs. We would propose that the upper limit to
20 permissive charges for the movement of goods in Canada
21 be established by statute at not more than the lowest
22 competitive rate published for the same or similar
23 traffic plus 40 per cent. It will be realized that
24 the figure of 40 per cent is arbitrarily selected and
25 should certainly be subject to a rigorous statistical
26 test by the staff of this Commission or the Board of
27 Transport Commissioners to make certain that it repre-
28 sents a reasonable maximum in line with actual cost
29 experience. It should never be reviewed in the basis
30 of the financial results of its application because such



1
2 a determination would under this new system of regula-
3 tion be deemed irrelevant. What is proposed is that
4 the railways be free to operate their business in the
5 same way as the other major businesses of Canada operate
6 but subject to one requirement as to maximum rates.
7 Such a requirement is made necessary because of the
8 monopoly element still remaining in a segment of
9 their business.

10 The practical operations of a system of maxi-
11 mum rates as herein proposed would not present any
12 especially difficult problems. As has been indicated
13 most of the rates used by railway shippers would be
14 determined as they are now determined namely by a
15 process of bargaining between the carrier and the
16 shipper or a group of shippers. The result of these
17 negotiations would establish the general competitive
18 level of rates. Rates in areas where the alternate
19 means of transport to railway transport were non-
20 existent or poorly developed would be set by the
21 railway at what the railway deemed satisfactory
22 levels subject to the provision that the rates be
23 not higher than 40 per cent above the rates for the
24 same or similar products in any other area. Such a
25 system of rate making would be essentially cost
26 oriented but would not deny the value of service
27 principle as one factor in rate determination. The
28 pure monopoly element in railway pricing would dis-
29 appear as in fact it has largely disappeared today.

30 The multiple functions that the Board of



1
2 Transport Commissioners exercises today in respect to
3 the rate structure would disappear. The Board would
4 have one major rate activity -- namely determining the
5 justness and reasonableness of a rate by reference to
6 its relation to other rates freely established by the
7 railways to move the same or similar goods in Canada.
8 The Board would act only on complaint and as is the
9 case today with competitive and commodity rates, would
10 not be required to approve rates ordinarily published
11 by the railways.

12 Highway transport would fit into the suggested
13 scheme of railway rate regulation in exactly the same
14 way as it fits into the Alberta transportation situation
15 today. Highway carriers would not be regulated
16 and would be free to offer their services to the
17 public at such prices as could be agreed upon between
18 the carrier and the shipper. Where the railways
19 decided that a particular service was unprofitable and
20 should be abandoned they would abandon it. If in
21 their business judgment a highway service should be
22 substituted they could be expected to provide that
23 highway service. Once again, on the basis of their
24 own analysis of the situation. The operation of
25 Canada's railways would be in the hands of railway
26 management. Subsidies of a non-specific nature
27 could be withdrawn. If, in the wisdom of the federal
28 government certain areas required economic assistance
29 such assistance would be rendered directly to the areas
30



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Harries, dir
(Frawley)

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1
2 and groups concerned and not by tampering with the
3 transportation price system.

4
5 ---Luncheon adjournment.
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2 THE CHAIRMAN: Order, please.

3 MR. FRAWLEY, Q: Mr. Harries, you had
4 reached the conclusion of your second brief?

5 A. Yes, sir.

6 Q. And will you now proceed to complete
7 putting it into evidence?

8 A. VIII. Conclusions and summary. It
9 is our respectful submission, sir, that this Royal
10 Commission can find within its terms of reference
11 authority to recommend to the government the adoption
12 of a system of freight rate regulation which will
13 abolish the anomalies and contradictions to be found
14 in the present methods used as a consequence of
15 regulations under the Railway Act and the Transport Act.
16 It might appear that to alter these present procedures
17 will involve a very radical departure and many sweeping
18 changes. This is not the case. A new approach
19 to transportation pricing requires only that what is
20 in fact happening in much of the rate structure today
21 be given explicit recognition and be used as a device
22 to control the monopolistic elements still remaining
23 in the transportation system. The alternative to this
24 acceptance is a policy of rigorous control that has as
25 its logical conclusion the nationalization of
26 transportation in Canada.

27 History, and more particularly the history
28 of the past ten years, has shown that our present
29 system of rate regulation is progressively less
30 effective in assuring just and reasonable rates to some



1
2 of the shippers of Canada. At the same time it is not
3 giving equitable treatment to Canada's railways. The
4 proposal outlined in this study has as its objective
5 the determination of maximum rates which protect the
6 non-competitive areas and shippers of Canada against
7 monopolistic exploitation while at the same time
8 preserving the important essentials of competitive
9 pricing for the major part of the economy. Such a
10 system if adopted would place the burden of efficiently
11 operating Canada's railways on railway management. It
12 would in no way stifle competition from other types
13 of carriers and would encourage the best and most
14 efficient use of all our transportation resources.

15 Freight rate control was originally applied
16 to Canada's railways to get away from the disruptive
17 effects of competition in one area and monopolistic
18 pricing in another. Too often emphasis has been
19 placed only on the second aspect of the problem.
20 Previously it was usually intra-carrier competition that
21 caused the trouble. Today it is inter-carrier
22 competition, but the consequences to the shipper in
23 the non-competitive area are the same. Competition,
24 and the railways right to meet it, was recognized in the
25 first Railway Act and was deemed to be of benefit to all
26 shippers because of the impact of volume on railway
27 costs. As long as the "uncontrolled" or competitive
28 segment of railway traffic was relatively small there
29 was little difficulty. Tests of reasonableness such
30 as those which are currently applied were designed to



1
2 meet this situation but are totally inadequate today.

3 The procedure advanced in this brief can be
4 illustrated by reference to several practical rate
5 situations drawn from current tariffs. For example,
6 the rate on gingerale from Edmonton to Calgary is 23
7 cents per 100 lbs. on a minimum of 40,000 lbs. (C.P.W.
8 975, Item 2461). There is also a rate on gingerale
9 from Winnipeg to Dryden, Ontario of 49 cents per 100
10 lbs. on the same minimum (C.P.W. 975, Item 1640). In
11 both these cases the mileage is approximately 200,
12 (actually 194.1 and 208.6 respectively).

13 Applying the test of reasonableness suggested
14 in this paper it would be assumed that the Edmonton-
15 Calgary rate returned more than the variable cost of
16 the movement and that this rate should properly provide
17 the measure of reasonableness of the Winnipeg-Dryden
18 rate. The latter rate could not be more than 140
19 per cent of the former or in absolute terms it should
20 be reduced from 49 cents to a maximum of 33 cents.

21 There is presently a rate on asphalt from
22 Lloydminster to east Edmonton of 23 cents per 100 lbs.
23 (C.T.C. (AC) 546). There is also a mileage
24 commodity scale of rates applicable between stations in
25 western Canada. The mileage commodity scale would
26 produce a rate of 45 cents per 100 lbs. for a similar
27 mileage. Applying our suggested test of reasonable-
28 ness to this latter rate scale would produce a maximum
29 commodity charge on asphalt for hauls in western Canada
30 of 170 miles of 32 cents per 100 lbs.



1 On propane movements in Canada there are
2 a number of special rates. C.T.C. (AC) 796 applies
3 from Clarkson, Ontario and other points to a number of
4 market areas in the province of Ontario. C.T.C. (AC)
5 168 applies from 20 points in Alberta, Saskatchewan
6 and Manitoba to points in those provinces. The rate
7 for 150 miles under C.T.C. (AC) 796 is 29 cents per
8 100 lbs. while the rate for the same distance under
9 C.T.C. (AC) 168 is 48 cents. The latter rate is not
10 reasonable by comparison with the former and if the
11 proposals suggested in this paper were adopted the 48
12 cent rate would become 41 cents.

13 I just may say with respect to these
14 examples there is no reason why the railways would
15 necessarily reduce the high rate to meet the low one
16 if in their opinion the low rate could be increased.
17

18 The whole point is that these are examples
19 and they show that given the existing rates there
20 would be an automatic reduction, but should --

21 COMMISSIONER ANSCOMB: Could I just ask a
22 question?

23 Supposing in all your assumptions all the
24 high ones were found to be reasonable and all the low
25 ones had to go up?

26 THE WITNESS: This would be a matter for
27 determination by the railways: if they felt that the
28 low ones were too low, well then, by all means they
29 could raise them, and there would be no change in the
30 high rates.



1
2 COMMISSIONER ANSCOMB: And no out cry?

3 THE WITNESS: No, sir. There would be no
4 justification for an outcry because these competitive
5 rates that we are talking about are supposed to be not
6 lower than necessary to meet the competition and more
7 than the variable cost. And if that is the case,
8 well then, there would be an adjustment between the
9 two of them. I do not for a minute suppose that all
10 of the rates would go down. I think it would be
11 unfortunate in many instances if they did so.

12 Discrimination in the railway freight rate
13 structure is justified on economic grounds and those
14 same grounds have also justified, since the start of
15 regulation, a restriction on the extent of the
16 discrimination. The "Public utility" type of rate
17 control which we now have worked very well when only a
18 small part of the rate structure was subject to the
19 effects of competition. Today "public utility" control
20 is not effective and should be replaced by statutory
21 direction which prescribes the maximum level of rates.
22 Such a statutory direction will automatically adjust
23 rate levels as the economic situation of the railways and
24 the shippers changes with the passage of time. Canada's
25 railways are only a part, albeit an important part, of
26 Canada's transportation system and they should be
27 allowed to participate on their own initiative towards
28 the development of sound commercial activity.

29 MR. FRAWLEY, Q: Thank you, Mr. Harries.

30 Will you answer the Commission counsel?



1
2 THE CHAIRMAN: Mr. Cumming?

3 CROSS-EXAMINATION BY MR. CUMMING:

4 Q. I would like to deal, Dr. Harries, if
5 I may, with the first brief that you read this
6 morning, taking them in the order in which you
7 presented them.

8 On this matter generally of long and short
9 haul discrimination which, as you have told us and I
10 think the Commission is probably very much aware,
11 is a problem that has agitated Alberta for some
12 considerable time, may I ask you this: before the
13 first Turgeon Commission, when Alberta was making its
14 proposals on this question of long and short haul
15 discrimination, and particularly the impact of
16 trans-continental rates, was it in your province's
17 contemplation that the umbrella of the one and one-
18 third rule would bring down rates in Alberta, or
19 would have the reverse effect, or a simpler effect
20 of bringing up the so-called trans-continental rates?

21 A. We thought that on-balance, sir, the
22 rates to intermediate points would be decreased. We
23 always admitted that there would be particular
24 instances in which the rates to the coast would be
25 increased.

26 Q. What I am getting at, really, Dr.
27 Harries, is this. What was the prime concern? Is
28 it a general reduction of rates to this one and one-
29 third level in Alberta, or was it a step towards an
30 equalizing of the position between the Alberta and the



1
2 coast distributor?

3 A. Basically, sir, I believe it was the
4 question of equalizing the position, but I certainly
5 would not want to leave you with the impression that
6 the possibility of rate reductions as such was not
7 thought of and considered.

8 Q. I take it you were not surprised, then,
9 in Alberta when after the one and one-third rule the
10 principal result was the cancellation of many trans-
11 continental rates rather than the reduction of rates
12 into Alberta?

13 A. No, we were delighted with the way the
14 one and one-third rule worked out, sir.

15 Q. Would it be fair to say that the
16 principal benefactor is not the Alberta consumer but
17 the Alberta distributor?

18 A. No, sir. It would not. As I tried
19 to point out in my brief, the position of the consumer
20 and the position of the distributor are not in
21 opposition; for this reason, that if the distributor
22 is able to broaden his market area he can only do that
23 because he has a better price at the central points.
24 If he has a better price at the central point, the
25 consumer of the product enjoying that better price
26 will have an advantage. In other words, this assumes,
27 sir, that the price which the distributor gets on
28 the periphery of his market area is determined by
29 competition and that that price flows back, less the
30 transportation differential, to the consumer at the



1 core of that market area. So that, in time, you get
2 a broadening of a distribution area from a particular
3 point. There are benefits flowing to the consumers
4 at that particular point.
5

6 Q. Just let me understand the situation.
7 You speak of the price to the distributor at the
8 central point under the one and one-third rule. The
9 price is going to be the cost price plus the
10 transportation charge which he pays, which will be set
11 on the basis of this one and one-third rule?

12 A. That is right.

13 Q. Well, if that does not go down, then
14 how is the consumer in receipt of any advantage?

15 A. He is not if there is no change in the
16 distributor's costs, sir.

17 Q. Precisely that?

18 A. That is correct.

19 Q. So then, just so that we may have the
20 position clear, unless the one and one-third rule or
21 some equivalent of it results in a reduction of rates
22 into Alberta, rather than a lifting of rates to the
23 coastal points, the only beneficiary is the distributor?

24 A. That is quite right, sir, except one
25 must qualify that to the extent that there is a change
26 in the general rate level as the result of an improved
27 revenue condition. That is a very modest qualification
28 on the general statement.

29 Q. Yes, I see. Well, having seen the
30 experience with the one and one-third rule and the



1
2 manner in which the railways may be said to have
3 escaped its stringencies by the use of agreed charges,
4 is there anything to suggest at the present time that
5 with the institution of the sort of ceiling that you
6 are suggesting the same approach will not be taken;
7 that is to say, rather than reducing rates to Alberta,
8 is it not reasonable to expect that the imposition
9 of your recommendation would merely result in the
10 cancellation of a lot of these trans-continental
11 rates?

12 A. There is no question, sir, that that
13 is a possibility, but I would not wish -- if my
14 understanding of the facts, and this is certainly
15 something in which there is factual information --
16 my understanding of the facts is that there were
17 rate reductions in Alberta as a consequence of the
18 one and one-third rule; that it was not -- in fact,
19 I would suggest, sir, that it was not in the
20 majority of cases the fact that rates to Vancouver
21 were increased; and, consequently, I would on the
22 basis of what I believe to be the facts, in that
23 instance conclude that there would be some
24 cancellations of agreed charges but that this would
25 not invariably be the case, by any manner of means.

26 Q. You expect on balance at the present
27 time that there could be anticipated a general
28 reduction of rates into Alberta under those
29 limitations?

30 A. I think there would be, sir, some



1
2 substantial reductions.

3 Q. Under the scheme that you have, do
4 you consider it necessary to have any legislative
5 requirement setting a floor for transportation pricing?

6 A. Pardon me? May I be sure, sir, which
7 brief you are referring to? We are talking still
8 about the one and one-third rule; the long and short
9 haul discrimination?

10 Q. Yes.

11 A. No, I do not think so, sir, no.

12 Q. Well, I will come back to that when
13 we deal with the second brief.

14 On page 10 of your first submission you
15 deal with this railway argument in support of long
16 and short haul discrimination. You say, in effect,
17 it answers itself. I take it you would concede
18 that there still remains a differential which would
19 be to some extent at least a tariff barrier that would
20 serve to protect and to permit the development of
21 local industry?

22 A. Yes, sir.

23 Q. It is not a complete self-cancelling
24 argument, as your brief perhaps seems to suggest?

25 A. No, sir, that suggestion is not
26 correct, if that is what is contained here.

27 Q. Then, over on page 11 you say this:

28 "Long and short haul discrimination
29 can only be justified, even on theoretical
30 grounds, as a short term expedient. The



1
2 long range benefits of an equitable
3 rate structure, - which must be a rate
4 structure virtually lacking long and
5 short haul discrimination - has a favourable
6 impact on all parts of the community."

7 I wonder why you say virtually all, Dr.

8 Harries? Why do you stop at that?

9 A. Well, because, sir, we are proposing
10 not that long and short haul discrimination be
11 abolished, but that there be a ceiling placed on the
12 extent of the long and short haul discrimination.
13 Our reason for saying "virtually lacking long and
14 short haul discrimination" is that long and short
15 haul discrimination would be restricted to that
16 measure implied by a section of the Act such as
17 the one and one-third rule.

18 Q. On the basis of principle why do you
19 stop short of advocating parity?

20 A. Well, because, sir, I personally feel
21 that one cannot argue for the application of
22 competitive conditions in circumstances where the
23 competition is not present. But I think one can
24 properly say that in those circumstances there shall
25 be a limit to the differences which are permitted.

26 In other words, sir, to ask that there be
27 no long and short haul discrimination on trans-
28 continental traffic is the equivalent in my mind of
29 saying that the people in a non-competitive area are
30 entitled to exactly the same rate as the people in the



1
2 competitive area, and this, I think, is wrong.

3 On the other hand, I think it is equally
4 wrong to say because there is no competition in this
5 area the rates can go up to 100 per cent of the
6 competitive rate.

7 Q. On the other hand, if it is likely to
8 result, as it may do, not in the reduction of rates
9 to the level of this ceiling that you advocate, but
10 the cancellation of existing competitive rates, then
11 really is it not just a general interference with the
12 normal forces of competition at such points as that
13 competition does operate?

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3 A. No sir, I do not believe that to be the
4 case and if I may I would like to explain why. There
5 must be limits on the extent to which there is present
6 discrimination, if there are not such limits imposed
7 then we get back to the case where we have no prohibition
8 against even such obvious inequity as personal
9 discrimination. I may pay one rate as a shipper and you
10 may pay another, exactly the same point, the same
11 commodity. I can justify that difficulty on an economic
12 basis because you and I may have a completely different
13 set of costs facing us. If you are going to justify
14 discrimination unrestricted on a revenue basis you can
15 justify a different rate for every shipper in Canada and
16 the only limitation to the number of rates and the extent
17 of discrimination is the ingenuity of the shippers in
18 presenting cost material to the railways that would
19 convince them that there is a revenue advantage. I can
20 work out an example very simply to show you that. Take
21 a producer of lumber, there are different periods with
22 different values, different costs in getting the material
23 out and so on from a lumber berth under circumstances
24 today. However, if there are two of them adjacent to
25 each other that have the same rate one can close down.
26 Of course, we cannot afford the cost on a revenue basis
27 alone. It could be argued that the railway would be at
28 an advantage to take this timber from the second operator
29 at a much lower rate than from the first operator so they
30 wont lose and so they lose this revenue increment over



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3 costs. This to me is not an appropriate way of
4 permitting discrimination to operate because it does not
5 imply any ceiling on it and I think that is what we must
6 seek.

7 Q. I am wondering if you can explain to the
8 commission this example that you give as analagous to the
9 comparative situations of Alberta and British Columbia
10 since we are concerned with those two areas where there
11 is competition operating in one geographical area and not
12 in another. I ask you for this reason that it seems on
13 the basis of the example that you give that that figure
14 distinction does not exist.

15 A. Well, on the basis of the example I have
16 given, sir, the competition that is present in the
17 example is a competition between one producer and another.
18 Each producer is faced with a different cost structure
19 and that in many respects is what we have when we compare
20 the situation in Alberta with the British Columbia on
21 trans-continental hauls. There are different cost
22 situations affected on these two hauls and also may be
23 affecting distributors or producers that we are concerned
24 with.

25 Q. On the next page you comment that the
26 history of long and short haul discrimination in Alberta
27 indicates that there have been successive improvements
28 which, I take it, you attribute to the development of
29 competitive transportation facilities. Is that a fair
30 way to put it?



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3 A. That is certainly one of the major reasons,
4 sir.

5 Q. And the experience in Alberta if I
6 understand the situation correctly, has been generally,
7 say in the last decade, that there has been a most marked
8 improvement in alternate and competitive transportation
9 facilities?

10 A. Oh yes, the railways themselves through
11 their truck service have helped to bring that about.

12 Q. Do you not feel there is any hope at all
13 that the continued operation and the continued improvement
14 in that respect will alleviate the situation in Alberta
15 sufficiently without the imposition of any element of
16 rigidity in the freight rate structure.

17 A. I do not think so, sir. We have in the
18 trucking industry seen some remarkable changes in the
19 size of load that may be carried and the specialization,
20 the degree of specialization of equipment and so on.
21 However, I do not think it can come to the point that it
22 would remove long and short haul discrimination. Railways
23 are basically the lowest cost carrier of bulk goods for
24 long hauls and having that fact in mind I would assume
25 it quite proper to conclude that the railway could always
26 have an advantage over the trucks at least in that area.
27 In that area at least we might expect the maintenance of
28 long and short haul discrimination if we relied on trucks
29 transport only to alleviate the situation.

30 Q. So the area of difficulty you can expect



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3 will narrow but will not be eliminated completely with
4 the development of alternate modes of transportation.

5 A. I will agree with that.

6 Q. You point out at Page 18 that since the
7 report of the Royal Commission on Agreed Charges there
8 has been a reduction in the number of long and short haul
9 violations. I take it that that is a reflection of the
10 impact of competition in Alberta. That is the last
11 paragraph on page 18.

12 Q. I am just wondering if that is correct.
13 What I meant was the Royal Commission in 1951. I do not
14 recall having checked an exhibit before the second Turgeon
15 Commission or the Royal Commission on Agreed Charges on
16 this one we now have entered. I think I can say it is
17 very certainly not any more and if I may I would like to
18 check the accuracy of this statement against the record
19 of that Royal Commission.

20 Q. A possible error in it may be that it should
21 be referring to the first rather than the second.

22 A. I just wondered that.

23 Q. You go on to the next page to say that this
24 condition may not continue. What is the basis of that
25 possibility. After a while, if we get a very marked
26 increase in the competition, and I am not speaking
27 particularly of marked competitive conditions on the
28 coast areas, then I can see quite a surge in a number of
29 long and short haul violations that would occur.

30 Q. This is something that is just a remote



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3 possibility or do you consider it to be a strong
4 likelihood.

5 A. Well, I was going to attach a probability
6 to it. I think I would say that there is between 50%
7 and 70% probability of it happening. I believe that
8 is not likely to decrease and I would put that probability,
9 likelihood of it increasing.

10 Q. And is that the only source of this trend
11 for this possibility that you see that is increasing
12 competition on the west coast.

13 A. Well, the situation of course with respect
14 to ocean transport is confused to a degree and there may
15 well be reductions of such a substantial nature in that
16 activity as to make attractive resumption on a far more
17 extensive basis of inter-coastal shipment which would also
18 have the same effect. Those are the only two that I can
19 mention as possibilities.

20 Q. Do you foresee any significant change in
21 inter-coastal water transport, water movement in Canada?

22 A. I do not think I am competent to testify
23 on that. The only thing I have examined in any detail
24 is the tanker situation and it was not in connection with
25 this so I would wish to note it has a possibility and not
26 answer your question on the basis my answer would not
27 be a consequence of study.

28 Q. First I would suggest the history of the
29 Canadian Merchant Marine would not give any great hope
30 of development in that regard.



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3 A. No, although as I understand it it is
4 not necessarily an activity to be undertaken only by the
5 Canadian Merchant Marine, it could be foreign shipment.

6 Q. On page 21 dealing with the railway argu-
7 ments that have been advanced in support of the competitive
8 rates you say in paragraph (a):

9 "The railway argument is valid only
10 if the traffic which the competitive
11 rate seeks to obtain for the railway
12 can be handled without an outlay of
13 capital funds for increase and
14 equipment or facilities. It
15 presupposes the existence of unused
16 railway capacity."

17 To what extent, if you can assist us in this
18 regard, to what extent has the railway held out capital
19 funds in order to get traffic on these competitive rates,
20 trans-continental rates.

21 A. I am sorry, I have no information on that.

22 Q. I am under the impression, rightly or
23 wrongly, that there is some substantial measure of
24 excess investment in a railway plant in Canada as it is
25 today. If that is correct then would it not be proper
26 to attribute more validity to these railway arguments
27 then your brief would seem to suggest.

28 Q. No sir, and if I might suggest why; let us
29 take some of these competitive rates having in there for
30 years. At the times they were put in let us assume that,



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3 there was unused capacity in respect to all the items
4 necessary to move that car from the East to Vancouver.
5 Now, it is inconceivable to me that that unused capacity
6 in respect to the various items required for the movement
7 still exist without maintenance and renewal ten years
8 after that initial date. In other words, there is bound
9 to be some capital expenditures, some maintenance
10 expenditure that is made as a consequence of taking
11 this very competitive traffic. The logic of it I think
12 is clear. If this were not so then one must conclude
13 that the railways could go on forever moving traffic
14 at an incremental cost, at a variable cost never having
15 to renew any part of their plant or equipment because
16 of the movement of the incremental traffic. I think
17 obviously that is falacious.

18 COMMISSIONER ANSCOMB: Could I interject there?
19 You are taking the view that maintenance might be capital,
20 is that what you are saying?

21 THE WITNESS: No, I am saying that when they
22 cost out a shipment, for instance, cast iron pipe from
23 Three Rivers to Toronto to Vancouver, surely at the time
24 that is done and the rate is established there will be
25 certain costs attributable only to that movement. On
26 the basis of that cost analysis it could be shown that
27 the competitive rate that is proposed is a rate over and
28 above the cost of the movement. However, if that movement
29 continues for ten years surely costs some of which may be
30 maintenance costs and renewal for equipment that are



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3 attributable and can be attributable directly to that
4 particular movement so your cost picture -- all I am
5 saying is what is a variable cost in one year period
6 will not be a variable cost in a ten period as you
7 increase the period under consideration. That maintenance
8 certainly is not a capital cost but it is a expenditure
9 made by virtue of movement which at the time it was
10 undertaken was justified because there was unused
11 capacity.

12 MR. CUMMING: You spoke of trans-continental
13 rates in answer to Mr. Commissioner Anscomb which had
14 been established ten years ago. You do not intend
15 leaving the impression on these that they stood unchanged
16 from that period, do you?

17 A. Certainly some of them have.

18 Q. And others have apparent increases to the
19 extent that the railways have found they could apply them.

20 A. Oh yes, there are certainly some that have
21 been increased but there are bunch of them that have not
22 been increased. I am not saying they could be increased
23 but I am simply saying that the element of contribution
24 to overhead that is in those rates cannot possibly be
25 the same as it was at the time the rates were put in.

26 COMMISSIONER MANN: There is still a possibility
27 and you think definitely so that there are quite a few
28 competitive rates that do pay their fully distributed
29 costs and in some cases perhaps more than their fully
30 distributed costs.



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3 A. Oh yes, certainly.

4 COMMISSIONER ANSCOMB: And you would say that
5 applied to grain between 1897 and 1961 would you?

6 A. That it was a reasonable return in early
7 years does not mean it is necessarily a reasonable
8 return today. Certainly there is no argument about that.

9 MR. CUMMING:

10 Q. Turning over to page 27 you speak of the
11 factors and results in Alberta of equalization of the
12 class rates and commodity rate scales. Could you give us
13 some idea of the extent to which, as a result of this
14 equalization, rates in Alberta have increased or decreased?

15 A. Well, with respect to the class rate scale
16 where rail reduction is in Alberta the consequence of the
17 class rate scale was put in, I am guessing, March 1, 1954.

18 MR. FRAWLEY: 1955.

19 THE WITNESS: 1955. There were reductions.
20 Calgary did not get the same reductions as Edmonton but
21 the general effect was to look after the class rate scale.

22 And now, since that time, however, the class
23 rate scale has been increased and it has been increased
24 more than competitively trans-continental or Agreed
25 Charges have been increased. That is all I am saying.
26 On the balance, looking at it with the benefit of five
27 years of history we can see that on-balance this
28 situation has not reacted to remove or lessen
29 discrimination at intermediate points.

30 MR. CUMMING: On page 28 you submit there that



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3 the loss to the railways, that is the loss of the
4 revenues to the railways resulting from the expansion of
5 the One and One-Third Rule you advocate would not be
6 significant. I wonder if you are in a position to assist
7 us on this? Have you made any calculation perhaps on the
8 basis of a a way-bill analysis of how much money dollar-
9 wise is involved here, what sort of magnitude of revenue
10 or net revenues are being discussed.

11 A. I certainly have not done anything with
12 respect to this brief. It does run in my mind that the
13 Alberta freight bureau attempted a calculation of that
14 kind and if I may I would like to check into that and if
15 there is any information which would answer your question
16 I would like to have the opportunity to discuss it with
17 Mr. Frawley.

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2 Q. Well, I am sure it can be filed if
3 you can ascertain. this and it might be of some
4 assistance

5 Turning, if I may, to the recommendations
6 on page 33 where you advocate the extension of the
7 one and one-third rule to all types of trans-
8 continental competitive movements whether by agreed
9 charges or competitive commodity rates, I wanted
10 to ask you one or two points as to the practical
11 operation of this scheme. How do you suggest that
12 receivers at intermediate points can join in on
13 agreed charges?

14 A. Of course, with the agreed charges,
15 the manner of shipment and so on is in control of the
16 manufacturer because he agrees to send X per cent
17 of his commodity via the agreed charge, and I would
18 think it would not be a case of the receiver so much
19 as the shipper joining in the application of the one
20 and one-third rule. I would think there would have
21 to be a special setup of rates set out for intermediate
22 territory and that the shipper would probably still
23 be a contracting party on it.

24 Q. That being the case, would all the
25 other conditions of any agreed charge which it was sought
26 to have made applicable to an intermediate point apply
27 subject only to this $33\frac{1}{2}$ per cent increase in rate?

28 A. Yes, I think they would, sir.

29 Q. And that, I suppose, would of course
30 introduce difficulties in the negotiation of them,



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2 wouldn't it?

3 A. Yes, it would extend the area of
4 coverage so the negotiation may be more significant.

5 Q. Apart from that, you don't see any
6 difficulty in it?

7 A. I don't want to under-emphasize
8 the difficulties. On the other hand, I don't think
9 I can go along with the Royal Commission on Agreed
10 Charges who said that the practicality of the scheme
11 was the real stumbling block.

12 Q. If ~~there~~ were any difficulty in ironing
13 out these problems vis-a-vis the intermediate point,
14 would -- and I suppose on this basis it would -- it
15 ~~stullify~~ any agreed charge involving movements to the
16 coast?

17 A. I think it would have to, yes sir.

18 Q. So, the whole negotiation of an agreed
19 charge involving a movement to British Columbia may
20 be completely stullified by reason of difficulties
21 arising out of points in Alberta?

22 A. That is right, in the same way that
23 the whole negotiation of a competitive rate may be
24 stullified by the application of the laws which exist
25 today with respect to competitive rates. This would
26 be part of the law and it would be a factor in any
27 negotiations.

28 Q. I would like now, unless the Commissioners
29 have something they want to deal with on this branch,
30 turn to your second brief.



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2 A. Yes, sir.

3 Q. There are a couple of short points
4 before I come to the new approach that you speak of.
5 On page 16, at the bottom of the page you mention
6 the existence of local manufacture which will be an
7 incentive to the carriers to grant market competitive
8 rates to present sources of supply. I am wondering --
9 and I think Commissioner Mann mentioned this in your
10 discussions this morning -- have you had any chance
11 to give that further thought and to tell us to what
12 extent you think internal market competitive
13 considerations should be factors in rate making?

14 A. I think they should be factors in
15 rate making to the extent that the railway can see
16 a profit in making rates to meet market competition --
17 internal or external.

18 Q. Without drawing any distinction at all?

19 A. I don't see there is any necessity
20 for distinction because if you try and draw a
21 distinction you get the railways into the position
22 where a certain rate may exist, and one shipper may
23 think it is because of market competition and another
24 think that it is because of carrier competition. In
25 other words, if it was always perfectly clear that
26 this is market competition and that is a carrier
27 rate, it would be fairly simple; but it is not that
28 clear. In many, many instances it is anything but
29 clear. I think the railway must go ahead and make
30 its rates on what it thinks is its own best interests



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2 having in mind the law of the country which governs
3 the rate making procedures.

4 Q. This would put the railway in a position
5 where through the medium of competitive rates it
6 will be compensated for what would otherwise be
7 geographic disadvantages within the country?

8 A. One could look at it in that light,
9 but I don't think there is anything remarkable about
10 that. I think that is what they are doing in many
11 instances.

12 Q. Do you not think there is any danger
13 that if the railways make rates having regard to these
14 considerations that they will become the arbiters
15 of the economic destiny of any region?

16 A. Well, of course, I think that the
17 railways are now unwillingly, unwittingly the arbiters
18 of industrial policy in many instances, and I don't
19 think this would change it at all. In fact, I think
20 this is what, as I have already said -- and I expect
21 to be asked by Mr. Sinclair to give examples -- where
22 they have done this, but they are not doing it to
23 overcome geographic disadvantage. They are doing
24 it because there is a chunk of traffic they want to
25 move because it is profitable, and I think that is
26 exactly what they should be permitted to do.

27 Q. You would remove any facade of
28 restriction at all and allow them a completely free
29 hand?

30 A. That may be a rather generous way of



1 stating it. Subject to the limitations noted in the
2 rest of the brief, I think the railways should be able
3 to make prices without special restrictions, except
4 the one against discrimination.

5 COMMISSIONER GOBEIL: The one and one-third
6 rule is not a restriction?

7 THE WITNESS: And the 40 per cent one we
8 mentioned.

9 MR. CUMMING, Q: The 140 per cent rule is
10 what it will be called, I suppose?

11 A. That is correct.

12 Q. On page 30 at the top of the page you
13 say, "Public utility control fails where such control
14 denies the applicability of external tests of
15 reasonableness and this is the present situation with
16 respect to railway freight rates." I wonder if
17 you could elaborate on what you mean by the external
18 tests of reasonableness?

19 A. As I understand the public utility
20 method of control or test of reasonableness for your
21 general rate level, it is to be found in the financial
22 consequences of of a formula established by the
23 regulatory body, and if your general revenue needs as
24 determined by the public utility body are not at such
25 a height as to permit a reasonable earning, then your
26 rates as a group automatically go up. In other words,
27 the level at which the rates operate is determined
28 internally with respect to financial requirements, and
29 whether these rates are reasonable by some outside
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2 comparison, which may be equitable or economic, is
3 irrelevant. Then, within the rate structure,
4 a rate on boots and shoes between X and Y is reasonable
5 because there are other rates of a similar nature
6 between the same or two similar points, which are
7 at this level. In other words, you are continually
8 pulling yourself up by your boot straps. If you
9 say the rate is unreasonable, the railways point to
10 another rate determined in exactly the same way and
11 say, "This is not unreasonable because it is not
12 any more than that one, but this one is determined
13 by the public utility control." That is what I
14 mean by that.

15 Q. Just what are the criteria -- I
16 think I understand what you mean when you describe
17 the internal tests for the revenue requirements and
18 the comparisons within the rate structure, but what
19 are the tests when we get outside that field?

20 A. I think essentially competition, sir.
21 I think that the reasonableness of the rates is to
22 be found by comparison with the rates applicable by
23 competing carriers or in the face of competition
24 by the same carrier.

25 Q. Is that exhaustive of what you call ---

26 A. I think that is -- it should be
27 singular: the external test.

28 Q. The test of the market?

29 A. Yes.

30 COMMISSIONER MANN: What is the external



1
2 test, for instance, of reasonableness in the control
3 of hydro electric rates to domestic consumers?

4 THE WITNESS: There is none.

5 COMMISSIONER MANN: The external test as
6 one of the market place in competition: here you have
7 what amounts to a monopoly -- consumers in relation
8 to hydro electric power. Where do I find my external
9 test in that case?

10 THE WITNESS: There are none. What I mean,
11 public utility type of control in railway operations
12 fails where such control denies the applicability of
13 external tests of reasonableness. I didn't mean
14 to imply that the usual type of public utility, where
15 there is not a competitive sector on control, that
16 you need external tests. You don't.

17 MR. CUMMING, Q: I suppose, though, even
18 in the situation which Commissioner Mann has put to
19 you, an electric company may say there is, in fact,
20 an external test because we may run into the cost
21 considerations of competing fuels?

22 A. Oh yes, to that extent it is correct,
23 but it is not usually that test which determines the
24 particular rate that is going to be charged. I may
25 say with respect to external tests of reasonableness
26 there is another brief to be presented by a witness
27 for the province of Alberta which includes what I
28 consider to be another external test of reasonableness,
29 separate from the competitive one.

30 Q. Well, we will deal with that in its



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2 turn.

3 A. Yes, sir. So, if I may, I will leave
4 that as plural instead of reducing it to singular.

5 Q. You will have those two strings to your
6 bow then?

7 A. Yes, sir.

8 Q. On page 31, talking about price policies
9 of highway carriers, you point out that in Alberta
10 where there is no regulatory control over highway
11 carriers, highway freight rates tend to be established
12 on a pure cost basis. What is the explanation of
13 that?

14 A. Well, the words "pure cost basis" are
15 not, maybe, too well chosen, because in fact ---

16 MR. SINCLAIR: Not ivory pure.

17 THE WITNESS: The rates are established by
18 negotiation, and more particularly on the basis of
19 what the operators think their costs are. That is
20 really a better way to describe it because that is
21 how they are negotiated.

22 Q. In other words, you mean on a cost
23 basis but without the application of scientific
24 costing techniques?

25 A. Oh, no. In Alberta, I mean, if I
26 have a load to haul to Calgary I phone up half a dozen
27 people I know have trucks and say, "Are you interested
28 in a haul to Calgary, and how much will you charge me?"
29 They may have a truck that is empty going to Calgary
30 that night with nothing in it, and he may say, "I will



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2 take that down for two bits. How are you going to
3 load it? Have you got a fork lift?", and I say, "Yes,"
4 and away he goes. The next time you may pay 35
5 cents, there is no one going. The next time you pay
6 \$125.00 and put as much as you can in it and roll it
7 down the road. It is rather an unsophisticated
8 cost.

9 Q. It is almost what the traffic will
10 bear, isn't it?

11 A. No, I might well be willing to pay
12 40 cents, and that would be what the traffic would
13 bear, but if this fellow has an empty trailer and
14 he wants to haul it for 20 cents, that is a rate
15 based on cost. In other words, if he can make 20
16 cents, get 20 cents gross revenue on a back haul,
17 he will take it.

18 Q. This is a question, though, isn't it
19 of the trucker in that situation charging what he
20 can get?

21 A. No; usually they don't determine
22 what they can get. That is my point. I may be willing
23 to pay 40 cents, but he is a back haul situation and
24 he figures he can make a contribution over and above
25 his out-of-pocket expense by getting 20 cents, so
26 he charges me 20 cents. There are circumstances
27 where certainly the trucker is going to see what I
28 will pay. This would be a case of charging what
29 the traffic will bear.

30 Q. On a negotiated base?



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2 A. Certainly, sir.

3 COMMISSIONER MANN: Do the large trucking
4 companies run on that basis, or is this strictly the
5 operation of a two-unit man?

6 THE WITNESS: Well, to a surprising extent,
7 the large companies do.

8 COMMISSIONER MANN: They do?

9 THE WITNESS: Oh, yes. Once in a while
10 things tighten up. I noticed this summer, for example,
11 for a while somebody was doing some evangelical work
12 because you could not get to Calgary for under 75 cents,
13 and then it breaks loose. It is a highly competitive
14 business, and the big fellows, to the extent they
15 have flexibility in their organization, are just as
16 competitive. Earlier this spring you could rent a
17 tandem tractor and van, go to Calgary for \$125.00,
18 and fill it with whatever you wanted as long as
19 it didn't exceed the weight restrictions. If you
20 put 20 tons into one of these units, you are talking
21 of a rate of 30 cents, or something like that, a
22 hundred. That is general. It is highly competitive;
23 that is all I can say. Also, there are lots of
24 carriers.

25 THE CHAIRMAN: Do the railroads who own
26 trucks do the same thing?

27 THE WITNESS: I can't say from my own
28 personal experience that they do, sir. I just won't
29 say because I don't know. I have never negotiated
30 a rate with Dench of Canada.



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2 MR. CUMMING, Q: I am wondering, the
3 situation being as you have described it in answer
4 to Commissioner Mann, how you say that highway
5 freight rates tend to be established on a cost basis?
6 I will even drop the word "pure"?

7 A. For this reason, that if I am
8 negotiating a rate, you can usually get it down to
9 the cost basis because if there is much left over
10 and above cost -- and let us put a liberal
11 interpretation on the word "cost" -- if there is
12 much left, somebody among the people you are
13 negotiating with is going to cut down. In other
14 words, if I am a trucker and I know I can run my
15 rig for 40 cents a mile, and I am negotiating for
16 business which works out at 50 cents a mile, and I
17 know there are two or three other people in it, I
18 am going to do my best to get the 50 cents, but I
19 am always going to be ready to drop down under that
20 50 cents to beat out these other fellows. I won't
21 say in every particular movement or every negotiated
22 contract that it is at a cost level, but the tendency
23 is that there is a very strong pressure to get it
24 to the cost level.

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26 ---Short recess.
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3 THE CHAIRMAN: Order, please.

4 Q. One point before I leave this question of
5 the Alberta Highway Truckers. In the situation that you
6 have described, I think I am fair in describing it as the
7 rather free negotiation of rates, do you find the
8 railways meet the competitive rates so negotiated?

9 A. Frequently, they do, and not on what I
10 might call the itinerant movements, but if I may say,
11 sir, in the last five years the railways -- at least,
12 so it seems to me -- have been very responsive and alert
13 to the competitive situation. I personally find that
14 the railways seem to be much more anxious to get business
15 now than before. They are much more anxious to meet the
16 competition and meet it in a hurry, and this, of course,
17 I consider to be a very good thing for the railways.

18 Q. That leads me to your chapter dealing
19 with the new approach to railway price policy. In
20 paragraph (c), at the bottom of page 34, this appears

21 "The railways should be freed from
22 'the crippling restrictions' now
23 limiting their ability to meet
24 competition".

25 What crippling restrictions are referred to
26 there?

27 A. I do not think there are any. I may make it
28 clear, sir, that what I am trying to do there is give in
29 capsule form some of the generalizations that have been
30 made with respect to the railway problem. This business



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3 of crippling restrictions: I do not, as I say, happen to
4 think there are crippling restrictions.

5 Q. This is what other people say; not what
6 you, Dr. Harries, says?

7 A. Yes.

8 MR. FRAWLEY: If you read the after dinner
9 speeches of certain people you find them.

10 Q. Well, on page 38, coming into the part
11 of this new scheme that you propose, Dr. Harries, your
12 suggestion as I understand it, is that there be a
13 statutorily fixed ceiling to permissive charges.

14 A. Yes.

15 Q. And you pick the level of 40% above the
16 lowest competitive rate?

17 A. Yes, sir.

18 Q. Now, on what basis is the 40% selected?

19 A. I selected 40%, sir, because I believe
20 that it should be something more than the proportion of
21 overhead to variable costs that usually occurs, and I
22 concluded, sir, from reading Ford K. Edward's statement
23 with respect to grain rates that the constant costs in
24 connection with the grain rates would vary from 15 to
25 25 per cent. I thought on the basis of a 25 per cent
26 constant cost that one should allow probably 50 per
27 cent above that, and I arrived at 40% on that basis.

28 Q. Well, without troubling you about the
29 sort of precise percent, why do you say that there
30 should be something more than what may be the general



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3 experience of the relationship between fixed and
4 variable?

5 A. Well, because, sir, I am accepting as
6 fact that there are a number of competitive rates
7 which are just above the variable cost . In other
8 words, they make little contribution to fixed cost ;
9 and, then, from that level they range all the way through
10 to those that cover and more than cover the fixed costs
11 associated with the movement. But, if we were to
12 restrict the highest rates to what we believe to be the
13 average ^{pro}portion of fixed cost in the total rate
14 structure, we would not be making allowance for those
15 rates which are less than the average. So, we must,
16 in setting a ceiling, if we are desirous of reaching
17 an average in total, in setting a ceiling it must be
18 above the average. I simply chose this figure as
19 illustrative of a figure that would be at about the
20 average when you consider the whole scheme of the
21 rate structure.

22 Q. I take it that in arriving at this
23 figure and in deciding that it should be something
24 more than the average you have an eye on the general
25 problem of railway revenue requirements.

26 A. Oh yes, sir.

27 THE CHAIRMAN: You want to be reasonably
28 generous.

29 THE WITNESS: Well, yes, sir. I felt that if
30 one is to get an average, and one is looking at the



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2 top range, the top must be more than the average
3 because otherwise you do not get an average that is
4 reasonable in terms of revenue requirements under
5 today's circumstances.

6 COMMISSIONER GOBEIL: But your low 40 per
7 cent would be based on the lowest agreed charge in the
8 country; the lowest rate for a variable commodity that
9 you could find in the book?

10 THE WITNESS: Yes sir, and always on the
11 theory that the railways have no rates which are less
12 than their variable cost.

13 COMMISSIONER GOBEIL: Suppose that we take
14 an example; I am a contractor in pulpwood and I am in
15 a small line which has not much traffic, and I cut,
16 say, 60,000 cords. That is quite a fair amount of
17 business for the company on the line?

18 THE WITNESS: Yes.

19 COMMISSIONER GOBEIL: And this year I prove
20 to them that if I do not have a lower rate and I prove
21 that with figures in hand, that if I do not have a lower
22 rate there will be no lumber moving. Then, after
23 bargaining with the wage and traffic men I come up with
24 an understanding that with the railway that for this year
25 and this year only -- because the railway may hope that
26 next year conditions may improve -- that I have a
27 special rate, and agreed charge.

28 And so this would determine the rate
29 of the whole lumber traffic in Canada
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3 My agreed charge?

4 THE WITNESS: If it was the lowest rate on
5 lumber that one could point to, it would require the
6 railways to not charge more than 140 per cent of that
7 rate for hauling lumber in other parts of the country;
8 and this would be because the assumption -- and I
9 think it is a perfectly valid assumption -- is that the
10 railways are not hauling your traffic for less than
11 their variable cost. And, consequently, they would get
12 40 per cent by way of a contribution to overhead from
13 all other traffic that was at the maximum, and this I
14 consider to be quite fair.

15 COMMISSIONER GOBEIL: Don't you think
16 that normally the chance would be, as I know for
17 instance of a specific case where it was done last year,
18 that if my rates governed the whole rate, the whole
19 commodity, wouldn't you think the chance would be
20 that I would not get that agreed charge?

21 THE WITNESS: I do not think there is any
22 doubt about it, sir, that there would be, in the case
23 that you mentioned where your one rate is going to
24 govern all the rates, that there would be a pretty
25 searching examination by the railways before they put
26 that rate in. I do not think there is any doubt about
27 it.

28 MR. CUMMING:

29 Q. Just to follow along the line that has
30 been introduced by Commissioner Gobeil, how is that



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3 proposition consistent with what you recommend as to
4 the freedom that the railways should have in setting
5 rates, having regard to internal market competitive
6 conditions.

7 A. It is consistent, sir, because it says
8 within this very broad area you may go ahead and do
9 whatever you like with the railway freight structure,
10 but you must not, as a consequence of your action,
11 burden the non-competitive area, and the measure of
12 burden that is acceptable is to be found in this 140
13 percent.

14 THE CHAIRMAN: Your scheme is to protect
15 the captive traffic?

16 THE WITNESS: That is all, sir. I think
17 that the railways and the shippers, where there are
18 alternate means of transportation and competitive
19 market conditions, that the railways and the shippers
20 as they do today, are quite capable of taking care of
21 one another or their own interests, but the real
22 problem is with respect to this relatively small piece
23 of traffic which is not subject to competition and
24 which under today's scheme has this cost residual
25 that I mentioned, and they must make it up. They have
26 no choice.

27 I am just saying that the freely arrived at
28 prices can properly be used as a measure of the extent
29 of discrimination which is acceptable, that's all.

30 COMMISSIONER MANN: Dr. Harries, we have



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2 been hearing something about captive traffic, and
3 there has been a little difficulty about defining
4 what captive traffic is.

5 Now, I seem to glimpse from what you say
6 here that you have a definition, and I wonder whether
7 you could tell us whether this would be right, if
8 I put it to you this way, that captive traffic is
9 any traffic anywhere in Canada which moves on non-
10 competitive commodity rates or on class rates?

11 THE WITNESS: That is correct, sir.

12 COMMISSIONER MANN: That would be your
13 definition of captive traffic?

14 THE WITNESS: Captive traffic is traffic
15 not subject to competition.

16 COMMISSIONER MANN: Well, no. Let us just
17 define this more narrowly, because we have been hearing
18 that -- particularly from the trucking associations --
19 that class-rated traffic is not necessarily captive
20 traffic, but is subject to competition.

21 You see, what I was trying to get at, is it
22 your definition, then, that captive traffic is all
23 such traffic moved by the railways which travels on
24 non-competitive commodity rates or on class rates?

25 THE WITNESS: Yes, sir, I think that is what
26 I have in mind, yes, sir.

27 COMMISSIONER MANN: Thank you very much.

28 MR. CUMMING, Q: That traffic, my colleague
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2 points out to me, and as appears from the Judgment
3 of the Board of Transport Commissioners dated November
4 17, 1958, in the 17 per cent case, at page 17 of the
5 pamphlet copy, apparently yields something just over
6 55 per cent of the total revenues. That is the
7 class rated and commodity rated traffic?

8 A. Yes, sir.

9 Q. This apparently is derived from the
10 Waybill Analysis and applied, of course, to both
11 railways. So, in terms of revenue it is not, I
12 suggest, Dr. Harries, a small portion of the
13 traffic, if that is by definition what is to be
14 known as captive traffic?

15 A. It is of the order of 50 per cent
16 on that analysis.

17 Q. Fifty-five per cent revenue-wise.

18 A. Yes, revenue-wise, it might well be
19 that high, sir. I would like if I may just -- so
20 that I am not misunderstanding your question, may I
21 see that?

22 Q. Yes, perhaps it may be of assistance
23 to put this before you. It has just been drawn to
24 my attention. Page 17.

25 A. Thank you, sir.

26 Yes, sir, that is the traffic.

27 Q. Now, while we are trying to define
28 terms in this, Dr. Harries, I wonder if you could
29 give us a definition of what would be in the operation
30 of your scheme a similar movement and this, perhaps,



1
2 follows from the question that Commissioner Gobeil
3 asked you?

4 A. Well, first of all, sir, I accept
5 in this scheme the concept of equalization. By that
6 I mean that rates would not be made, as they are not
7 now made, under the equalization proposals which
8 recognize the regional differences that exist in
9 transportation conditions. I accept the theory behind
10 equalization which says that for purposes of Canadian
11 freight rate structure we treat the railways as
12 organic wholes, not by regions.

13 I think that is one thing that one must
14 accept in connection with this. And, therefore, the
15 easiest circumstances, of course, to find, as I
16 have illustrated in the brief a rate on ginger ale
17 from X to Y, which is so many miles, to be compared
18 with the rate on ginger ale for the same number of
19 miles in another part of Canada. Then, your comparison
20 is on all fours.

21 Now, there are differences which can come
22 in. How would one, for example, relate the rate
23 on one commodity for 200 miles with the rate on that
24 same commodity for 400 miles. What is a reasonable
25 relationship there? I think the answer, sir, is
26 that there would have to be as a consequence of
27 experience, which I think we have, and particularly
28 with reference to cost, a reasonable relationship
29 for different mileages fixed so that we can make these
30 comparisons with some assurance that they are valid.



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2 Q. Well now, following along this line
3 of the similar movement, then, a 200 mile movement
4 of lumber in the province of Quebec within that
5 region would be a movement similar for rate-making
6 purposes to a 200 mile movement of lumber from
7 British Columbia to Alberta?

8 A. That is quite correct, sir, exactly
9 the same way as it is with the equalized structure.

10 COMMISSIONER GOBEIL: Don't you think that
11 your ginger ale moves mainly on main lines, and,
12 as such, maybe under 70 miles might be the same
13 rate, but when you come to a raw product like lumber
14 that one may move on 200 miles, which is a deficit
15 branch line which the railways are forced to keep,
16 they would be justified for a special rate on that
17 branch line, but this should not apply for the whole
18 country?

19 THE WITNESS: No, sir. I realize the
20 problem there, but I stick to the concept of
21 equalization that Alberta submitted to the Royal
22 Commission ten years ago and particularly that
23 part of the submission which was made by Mr. H.J.
24 Darling, wherein he dealt at length with this
25 problem of the relationship of branch lines to main
26 lines.

27 As I say, I appreciate that there is a
28 difficulty there, but I feel that the way to meet
29 it is with the concept of equalization rather than
30 trying to say that movements on branch lines, as



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2 distinct from movements on main lines, are not similar
3 conditions, because as soon as you start that, then
4 you get to the case, where, for example, it costs
5 more to move at 200 miles in British Columbia than
6 it costs for 200 miles on the prairies.
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2 You are going uphill or downhill or you have an
3 empty car movement and one can get so completely
4 confused in the mechanics of costing a particular
5 relatively short haul that you lose sight of what
6 you are really trying to do. I adopt the reasoning
7 of the Board of Transport Commissioners when they
8 removed the mountain differential. I think it is
9 implicit in this concept of equalization that you do
10 not try and get it right down to the finite detail.

11 Q. You mentioned a problem that might
12 arise from a 200 mile movement and the answer which
13 is going to be reached by some comparison that you
14 reach is of the order of 400 miles?

15 A. Yes, sir.

16 Q. And you said that there would have
17 to be some predetermined mileage progression?

18 A. Yes.

19 Q. Can the system that you are suggesting
20 work, in your opinion, without a division of costs
21 such as suggested in the British Columbia submission
22 with which I am familiar as between terminal and line
23 haul costs?

24 A. There again, in a general way, yes.
25 You would require the cost distinction but I do not
26 want to leave the impression that one would get into
27 an elaborate costing technique to arrive at the
28 figure. In other words, 40 per cent -- inspite of
29 the work you want to do on costing you will still
30 end up with a judgment figure. Similarly, I think we



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2 would be justified in accepting general suggestions as
3 indicating a fair relationship. The thing I want
4 to avoid is suggesting that this method is going to
5 get right down to the wear and tear on 100 lbs. steel
6 rail for ten miles. The reason I want to specifically
7 avoid that sort of situation is because I think that
8 this is a method to eliminate or hold down the
9 discrimination and as such it does not need to be that
10 detailed.

11 Q. If we are going to have embodied in
12 the Railway Act a fixed percentage, and I appreciate
13 the reply that you were not married to 40 per cent as
14 against 39 per cent to 41 per cent, surely before that
15 is settled, the proper percentage that is going to
16 be enacted by Parliament should be arrived at with
17 some substantial degree of certainty?

18 A. Oh yes, and I have --

19 Q. That leads me to my next question.
20 You suggest on page 39 that the figure of 40 per cent
21 which you mention is arbitrarily selected and should
22 be subjected to rigid statistical tests by the staff
23 of the Board of Transport Commissioners to make
24 certain it represents a reasonable maximum in line with
25 actual cost experience and, I suppose, railway revenue
26 requirements?

27 A. Yes, sir.

28 Q. Now, what would you suggest would be
29 the criteria by which the level, after this necessary
30 statistical work is done, should be judged?



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2 A. I think it would be perfectly proper
3 to accept the last official determination of
4 financial requirement by the Board of Transport
5 Commissioners and say, "This is what we are going to
6 use". In other words, it seems to me that we have
7 got to stop at some point in this, to use a rather
8 tired and worn word "spiral" that we are in with
9 respect to cost and rates. I think it would be
10 perfectly proper to take the last determination by the
11 Board of Transport Commissioners and say, "Now, on
12 the basis of this what would be a reasonable percentage
13 to use" and then proceed from that point.

14 COMMISSIONER MANN: That would be a one
15 time determination because after that you would no
16 longer need that.

17 A. I would be very loathe to change it
18 without giving it a long time to work, say five years
19 or something like that.

20 COMMISSION MANN: What I was coming to was
21 the question that I know was asked one of the British
22 Columbia witnesses but under your system would still
23 be any need for the continuation of the requirements
24 formula for one thing and, secondly, would there be
25 any need for further general revenue cases before
26 the Board?

27 A. The answer to both those questions is
28 no, there would be no requirement. There would be
29 no need for a requirement formula and there would be
30 no need for general revenue cases.



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2 MR. CUMMING: Although the 40 per cent
3 or whatever figure is arrived at is arrived at having
4 regard to the present requirements it is fixed for
5 certainly a substantial period of time?

6 A. Yes.

7 Q. And I suppose hand in hand with that
8 goes the idea that that postulates the necessity of
9 the continued expense of the present railway plant?

10 A. That is correct, sir. I would be
11 surprised if after giving this freedom there would
12 not be a very determined effort on the part of the
13 railways to cut out certain uneconomic lines, to
14 reduce or do away with uneconomic service.

15 Q. What is there in this system that
16 will encourage the railways to introduce economy such
17 as you just mentioned?

18 A. Well, the fact that every nickle
19 they get other than the usual modest contribution
20 that the company is required to make the federal
21 government by way of income tax -

22 MR. SINCLAIR: Did you say modest?

23 THE WITNESS: Yes, sir.

24 MR. CUMMING, Q: Mr. Sinclair will
25 make a note of that.

26 A. And the success of this is going to
27 depend almost solely on their own action. They would
28 not be given the privilege of going to the Board and
29 saying that they had lost money and need more or,
30 alternatively, they would not be answerable to the



1
2 Board if they had made more than the Board might in
3 some circumstances think reasonable. They would be
4 running their own business.

5 THE CHAIRMAN: In your view what would this
6 do to rail revenue?

7 THE WITNESS: I think the initial
8 consequence would be a reduction in rail revenue but
9 as the plant, as the railways were given the opportunity
10 to adjust their operating facilities the traffic
11 volumes, I think that their return on investment would
12 gradually go up. I see no reason, if the railways
13 are the most efficient carriers that we have for bulk
14 commodities on long distance, if they are the most
15 efficient then by definition they are profitable and
16 if they are profitable then I say they should be given
17 the opportunity to go out and make profit. I think
18 part of the difficulty is that the inherent efficiencies
19 that rail transport are under, they are not given a
20 really untrammelled opportunity to express themselves.

21 THE CHAIRMAN: Why not?

22 THE WITNESS: Well, for one thing I think
23 our abandonment procedure imposes undue burdens on the
24 railways. I do not wish to pose as an expert on
25 branch lines or anything but it is my feeling with a
26 very limited amount of study that there are many branch
27 lines that could be profitably abandoned where alternate
28 service could be rendered, alternate forms of
29 transportation could be used to the benefit of the
30 railways and, indeed, to the ultimate benefit of the



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2 shippers. I would like to see a situation created
3 where this can be done. Similarly with passenger
4 service. I see no requirement in the world that
5 the Canadian National and the Canadian Pacific run
6 trains from here to Vancouver for the convenience
7 of a few people who are not prepared ^{to pay} what the service
8 is worth. If that is the case, if the service is
9 not paying for itself then let us do away with the
10 service. I cannot see why freight shippers should
11 be burdened with a passenger deficit nor can I see
12 the reason why mainline services should be burdened
13 with obviously unprofitable branch lines. As I say,
14 I do not pose as an expert on it at all but that is
15 the consequence of my thinking in regard to it.

16 MR. CUMMING, Q: What, if any control over
17 abandonment would you leave with the Board of Transport
18 Commissioners?

19 A. Well, I do think it would be wrong to
20 abandon branch lines on a unilateral basis. I think
21 that the railways for their own long term interest
22 would want to make certain that any abandoned
23 industries that have been located on their branch
24 lines would have service. I would contemplate that
25 where it was possible the railways would substitute
26 a trucking service for this particular abandoned
27 branch line.

28 Q. Well, would abandonments have to
29 proceed as they do now on the basis of an application
30 of the railways to the Board for the abandonment of



1
2 this section of line or that service or whatever it
3 may be?

4 A. I would think that there should be,
5 first of all, the public should be notified that it
6 is the intention to abandon^a certain part of the line
7 and if there are protests that the Board should
8 hear them. However, I do not think the Board should
9 stop an abandonment in the case where the railways
10 can show that they are losing money unless the Board
11 can satisfy themselves that this loss of money is only
12 a short term thing and that it will be to the ultimate
13 benefit of the railway system to have this line in
14 operation.

15 Q. You mean in terms of net revenue to
16 the railway out of that particular subject of proposed
17 abandonment?

18 A. Yes, sir.

19 Q. And following that, supposing the Board
20 were of the opinion that there was element of public
21 interest involved in maintaining a service unprofitably
22 today and so far as can be foreseen never to be
23 profitable, who is to pay for it?

24 A. Well, if there was that requirement I
25 would suspect that the government might wish to give
26 a subsidy to those particular people. I mean, that
27 is the only way. When you have something that won't
28 pay for itself and it is necessary for the public
29 then the government provides it or pays somebody else
30 to provide it. That is what I am suggesting.



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THE CHAIRMAN: Which government?

THE WITNESS: Whichever government feels
it is for the convenience of the public.

THE CHAIRMAN: Provincial or federal?

THE WITNESS: It could be either, depending
on which government feels it is for the convenience
of the people.

COMMISSIONER ANSCOMB: You may be quite
sure that each will think the other is responsible so
what would you do then?

MR. CUMMING: There is some precedent, I
think.

A. Yes, you may have a location like on
a grade crossing but the point is that the railways
should not be required, in my view, to maintain a
service that won't give them a return. If that
service is necessary and should be retained for
social reasons, if you wish, then it is quite proper
to pay a subsidy but the subsidy should not come
from the freight shippers or the railway, it should
come from the general revenues of the country or of
the province.

MR. SINCLAIR: Or the municipality.

MR. CUMMING: Or, as Mr. Sinclair suggests,
possibly from a municipality.

MR. FRAWLEY: They have not got any money,
where would they get it?

THE WITNESS: I mean that is the idea and I
do not want to get too involved in this but the idea



1
2 that it is necessary for the public convenience, it
3 must be necessary for the convenience of some part of
4 the public and, if possible, they are the people who
5 should pay for it. For instance, to take a silly
6 example, down by my farm the railway have a cattle
7 loading chute and it is indeed a thing of beauty
8 because it is painted white every year. This chute
9 has not been used for twenty-three years and as a
10 shipper of livestock I do not load out there, I take
11 the livestock to Edmonton by truck but somewhere in
12 paying for my livestock shipment I am paying for
13 the cost of maintaining this little edifice. I do
14 not think I should be paying for it. If the fellow
15 across the road needs that and I do not see any reason
16 to suppose he would, but if he needs it he is the
17 fellow who should pay for it. On these abandonments,
18 I think they should do away with things like that.
19 They ran a boxcar into this cattle chute a year ago
20 and, by George, they rebuilt it.

21 MR. CUMMING: I think it is Mr. McDonald's
22 turn to make a note.

23 COMMISSIONER MANN: It will not be painted
24 next year.

25 MR. CUMMING, Q: You may find yourself
26 with an unpainted cattle chute.

27 A. It is a very silly example but it
28 does illustrate what I have in mind.

29 Q. On page 40 you say:

30 "The Board would have one major rate



1
2 activity -- namely determining the justness
3 and reasonableness of a rate by reference
4 to its relation to other rates freely
5 established by the railways to move the
6 same or similar goods in Canada."

7 This would be the extent of the Board's
8 function?

9 A. Yes, sir.

10 Q. Do you feel that as compared to the
11 present situation where, as I understand it, the
12 value of rate comparisons really exist only in the
13 case of which might properly be called normal rates
14 that this same comparative process is applicable,
15 properly applicable when what the Board will be
16 comparing one rate with is another competitive rate?
17 I am sorry I put that in a rather long involved way.

18 A. I think I understood what you said
19 and I think the answer is yes. I think they would
20 act on complaint and the person who made the complaint
21 would allege that his rate is more than 140 per cent
22 of a similar rate and the Board would act after
23 hearing, if necessary, to reduce that rate.

24 Q. And a similar rate, if I understand
25 it, would be based probably on the commodity involved?

26 A. Yes, sir.

27 Q. Now, what are we going to do under
28 this system when there is no similar rate and
29 presumably that is a situation that might exist?

30 A. You have no standard of reasonableness.



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Q. That is the situation?

A. Yes.

Q. Then, what is the ceiling?

A. There is no ceiling.

Q. No ceiling at all?

A. No, sir. I find it difficult to see such a circumstance arising, but if it did, in the proposal as I have made it there is no ceiling. I am not saying this is a correct thing, but it is a fact.

THE CHAIRMAN: There is a floor but no ceiling.

THE WITNESS: Yes, sir.

MR. CUMMING, Q: Do you see any prospect of the railways putting in developmental rates under this system having in mind the impact that the establishment of such a rate may have on the rates on that particular commodity generally?

A. Oh, yes, I think they would, sir. Once again it would broaden their economic horizon as it were, if this particular rate was going to affect a whole host of others. As I am aware, the lowest rates in the book are not developmental rates. They are competitive, pure and simple.

Q. Then you follow along from the problem that Commissioner Gobeil has mentioned to you: what prospect do you see of other developmental rates or incentive rates, or anything of that sort, being established by the railway when it is going to have



1 an impact, and presumably a depressing impact, on
2 rail revenue all across the country in the handling
3 of any particular commodity?
4

5 A. I think initially that the effect
6 would be to cause a marked restriction probably in the
7 railway rate making procedures. I think they would
8 probably draw in their horns on this for a while.
9 They would be mindful of the fact that if they lowered
10 such and such a rate it would have an impact over a
11 rather large area, but I don't think it is unreasonable
12 at all to say to the railways that the difference
13 between their lowest and highest shall not be more
14 than this 140 per cent. It may be initially
15 restrictive, but I don't believe that as the thing
16 worked out it would be nearly as restrictive as one
17 at first imagines.

18 Q. At various other sittings of this
19 Commission, particularly in some of the regional
20 sittings, we have heard complaints from various
21 shipper sources about the slowness on the part of the
22 railways in striking competitive rates or making
23 agreed charges, and you have advocated before this
24 Commission that the railways be as free as possible
25 to meet competitive situations as they arise -- and
26 they arise from day to day. How can that objective
27 be achieved when under the scheme that you suggest
28 there is going to be an immediate impact all across
29 the country whenever any shipper comes to the railway
30 and says, "I want a particular rate on this particular



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2 commodity from A to B"?

3 A. Well now, sir, if you don't mind,
4 I won't accept your assumption that every time a
5 shipper comes in there is going to be an immediate
6 impact. The only time you will get an impact is
7 when a shipper wants a rate lower than the one for
8 the same commodity under similar circumstances as
9 now exists. That is the only time, and in my
10 contemplation normal activity will be confined to that
11 rather broad area between the minimum rates as then
12 established and the maximum rates established by
13 statute, and it will only be in the rather exceptional
14 circumstances that one will get a lower rate than
15 those presently established. It has been my
16 experience that today when you go into negotiate
17 a rate what usually happens is that you are within
18 some broad negotiating range when you start and
19 that the railways are very conscious of what the
20 low rates in that area now are, and that is, I think,
21 what would happen under this circumstance. So, I
22 will admit there will be circumstances where rates
23 applied for will be below those presently existing
24 and this would be a long drawn out process because
25 they would have to consider the overall picture.

26 Q. On balance you think the difficulties
27 I am suggesting are more imaginative than real?

28 A. With respect, I do. Let me say
29 this, that the railways are just a big company; they
30 are not any quicker or any slower than most companies.



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2 If one wanted a horrible example, you can compare it
3 with a university, because it takes three months to
4 get a real quick decision.

5 Q. That is because of the committees?

6 A. Yes. The railways are not slow because
7 they are railways. I think they are slow because they
8 are big companies and you have to have this; that is
9 all.

10 Q. I have only a few more points. On
11 page 41 under this scheme you have said the operation
12 of Canada's railways should be in the hands of
13 railway management. Subsidies of a non-specific
14 nature could be withdrawn. I don't understand what
15 you mean by the term "non-specific subsidies".

16 A. Well, a non-specific subsidy, in my
17 mind, is the Lake Superior subsidy.

18 Q. You mean the bridge subsidy?

19 A. Yes.

20 Q. Do you have any others in mind? What
21 about the Maritime Freight Rates Act?

22 A. No; the Maritime Freight Rates Act,
23 in my view, is a subsidy to a region on account of
24 historical commitment and so on, and I think that
25 would stay in terms of this use of "non-specific",
26 but I do not believe it should be appended to the
27 transportation system the way it is. There is a
28 very good quotation which I wish to refer to in
29 connection with subsidies in the report of Mr.
30 Justice Rand on page 7. It is the first complete



1
2 paragraph on page 7, and I find myself in agreement
3 with that thinking.

4 Q. Perhaps we might have that?

5 A. "This country has been conceived and
6 so far brought along since 1867 primarily
7 in terms of political and social
8 considerations. Economics by counter-
9 balancing empiricism of those factors
10 have been harmonized with national unity
11 and the spirit of a prosperous and
12 progressive people. While, then,
13 economic principles may seem to be
14 outraged by the means of support to the
15 coal industry of the past, in the view
16 of the national interest as a whole
17 there price has been a small item in
18 the general national ledger. But that
19 is not to justify that as a fixture
20 within limited bounds. The pragmatic
21 policy underlying them by its nature
22 must regard every aspect of this subject
23 matter and modification in any direction
24 indicated by results must be accepted as
25 essential to such a policy."

26 This, as I appreciate what he means here,
27 sir, is that there is a place for subsidies in the
28 Canadian picture and that these subsidies may be
29 necessary in terms of political and social
30 considerations, but I am suggesting that if there are



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2 subsidies required, because of this they should be
3 explicitly given for those considerations and not
4 tied in with the transportation system or part of
5 the transportation system, because as soon as you
6 start with a subsidy for the railways, then the
7 boats and trucks want a subsidy and you pile
8 confusion on confusion as it were. If a region is
9 entitled to a subsidy in the opinion of the
10 government, then of course the government pays it,
11 but not through the transportation system.

12 Q. That being your view, may I ask you
13 what you think about the movement of grain to
14 export positions, on this assumption, that the
15 railways have called some evidence before this
16 Commission and have contended, and presumably will
17 continue to submit, that they move grain to export
18 positions at an out-of-pocket loss and their suggestion
19 is that this be made up by means of a payment from
20 the federal treasury which they will describe as
21 a subsidy to the farmers but paid through the medium
22 of the transportation charges. I think that is
23 perhaps a fair summary of their position. How does
24 that proposal fit in with what your views as to the
25 proper application of a subsidy are?

26 A. First of all, I don't think that the
27 railways should be required to render a service at
28 a loss, and I think there is every reason for applying
29 to the movement of export grain the same considerations
30 as we would have applied to other movements in Canada



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2 under this 140 per cent suggestion. Secondly, whether
3 the grain farmers of western Canada require a grain
4 subsidy or do not require such a subsidy is something
5 that I don't know, but if they do, then I think it
6 should be paid to them as a direct subsidy and not
7 get it confused with the transportation system. There
8 is no problem in paying a direct subsidy: a couple
9 of years ago I got a cheque for \$200.00 from the
10 government because this was a general subsidy payable
11 to people who held permanent books in western Canada,
12 and this is a perfectly proper thing. But, it should
13 not become involved with the transportation system
14 because it destroys your resource allocation -- the
15 "allocative efficiency of the economy", is the way
16 some economists describe it. Then, I think it would
17 be wrong also when you work through the transportation
18 system to single out one particular area and say,
19 as the railway is indeed now saying, "We think there
20 should be a subsidy paid to the farmers on western
21 grain, but we are going to get it." Why should not
22 there be a subsidy on some of the other things on
23 which they are losing money -- passenger service?
24 This is an old argument, but it does not seem to me
25 to have lost any of its force by being restated. If
26 you are going to give subsidies you should give them
27 to particular people because they are deserving of
28 the subsidy having in mind all the circumstances,
29 but you should not try and bolster up the Canadian
30 Pacific Railway by paying them a subsidy for the



1 movement of grain any more than you should pay them
2 a subsidy for the movement of passengers or to
3 operate branch lines that are not profitable. That
4 is my view.

5 Q. You spoke of resource allocation: I
6 suppose it is fair to say in the optimum, the most
7 effective allocation of transportation resources in
8 Canada would be under a system whereby the low
9 cost carrier handled the traffic?

10 A. That is correct.

11 Q. Taking into account, of course, service
12 considerations?

13 A. Yes.

14 Q. Do you visualize that the scheme
15 which you suggest here is so cost oriented that that
16 objective can be achieved?

17 A. I think there is a very good
18 possibility of it, sir, because it is based on
19 competition, and unless you have a competitive base
20 you don't have the opportunity for the low cost man
21 to get in there and get the business.

22 Q. You would rely, then, on the forces
23 of the market place to produce what over time, in any
24 event, will be basically a cost oriented freight rate
25 structure?

26 A. Yes, sir.

27 Q. Subject only to the limitation that
28 for what may broadly speaking be described as captive
29 traffic there be this 40 per cent ceiling?
30



1
2 A. Yes, sir.

3 Q. One hundred and forty per cent rate.

4 I suppose there would be a statutory floor on any
5 rates you would permit, being the level of out-of-
6 pocket costs?

7 A. I think there could be, sir, but I
8 rather question it is necessary. As a matter of fact,
9 if the railways in these circumstances wanted to go
10 around making rates below their costs, well, the
11 onus would be on them. The reason I think you need
12 a statutory floor is because under today's
13 circumstances there is a presumption or an attempt at
14 least to have the non-competitive areas making up the
15 deficit, and that is what is wrong. If you don't have
16 the requirement of these people making up the deficit,
17 then the railway can charge whatever it likes.

18 Q. What you seek to achieve, you feel
19 will be brought about by the operation of competition?

20 A. I think so, sir.

21 Q. Do you not see any danger if the
22 railways are freed of their present obligation to
23 refrain from making rates from out-of-pocket costs
24 that there would be serious inroads on that very
25 competition which you say must continue?

26 A. No sir, I don't, but I would be quite
27 content to see a floor put on just in case your
28 suggestion might be correct and my thought might be
29 wrong.

30 Q. You don't see any danger that, freed



1
2 of that obligation, the railways may go out and
3 crucify -- I will go the whole hog on this -- destroy
4 their truck competition?

5 A. I must confess ten years ago I was
6 very much of a mind to accept the proposition that
7 the railways could, by their actions, destroy
8 competition, and thus tend to create a monopoly for
9 themselves, but I cannot honestly say that I feel
10 that today. The way the trucks have come back is
11 most surprising, and over the past ten years the
12 railway has given them some real lumps, but they
13 are in there today and working. In other words,
14 they are not quite as frail a flower as I thought ten
15 years ago they were.

16 Q. Under this system if an agreed charge is
17 instituted that will be the bell weather of the
18 rates for the particular commodity which is the
19 subject of that agreed charge, as I understand your
20 scheme, what happens if that agreed charge is
21 cancelled?

22 A. Then, I think if it was the lowest
23 rate applicable for this particular commodity, then
24 the railways would be at liberty to alter the rates
25 which were held down by that agreed charge if they
26 wished. There would be nothing stopping them from
27 changing those rates. If they were 140 per cent
28 of \$1.00 and you cancelled the \$1.00 rate and the
29 next best rate was \$1.10, then the new rate would
30 be \$1.54, if my arithmetic is correct.



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Q. Thank you.

THE CHAIRMAN: We will adjourn now until
10:00 o'clock tomorrow morning.

---Adjournment.

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